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Opposition puts on a brave face

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Microsoft

Mr Gates goes to Washington

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IT team plays a quiet game

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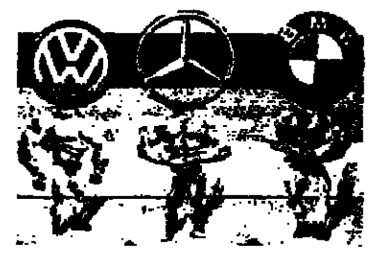

FT Auto

Germans show their muscles in Tokyo

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World Business Newspaper http://www.FT.com THURSDAY DECEMBER 4 1997

WORLD NEWS

Nazi gold pool may hold loot from victims of Holocaust

Up to 60 tonnes of gold in the Tripartite Gold pool – set up by the allies to return gold looted from Europe's central banks during second world war – may have come from victims of the Nazis. Elan Steinberg of the World Jewish Congress said recently declassified US files showed much of victims' gold had been mixed in with gold from the reserves of the looted central banks. Page 12

Russia to raise rates again
Russia will soon raise interest rates again to defend the rouble and calm the treasury bill market, central bank chairman Sergei Dubinin said. Page 12

Silvio Berlusconi convicted
Silvio Berlusconi, leader of Italy's centre-right opposition and former PM, has been convicted in Milan of having helped to compile false accounts. He was fined L10m ($5,780). Page 2

EU asylum claim
Asylum seekers are being driven out of Europe because of a push by EU member states to co-ordinate their asylum policies, claimed human rights group Amnesty International. Page 3

Knighthood for Pele
Brazilian soccer legend Pele has been awarded an honorary knighthood by Queen Elizabeth II at London's Buckingham Palace. Picture, Page 9

Compromise in Kyoto
The first compromise at the climate change talks in Kyoto seems likely to be on the issue of which gases should be covered by an agreement. Page 4

Spain and UK clash
Spain and the UK are putting different interpretations on the outcome of a Nato defence ministers' meeting which cleared the way for a streamlined alliance command including Spain. Page 2

Lebanon economic plan
Lebanon's premier Rafiq Hariri has presented the cabinet with an economic plan aimed at cutting waste and raising $2bn via a partial debt restructuring. Page 4

India set for election
India's president K.R. Narayanan is expected to dissolve parliament and order fresh general elections. Page 6

Israel state workers strike
Israel's public sector workers halted the economy in a strike against pension reform and privatisation. Page 4

Gloom on growth
Europe's businessmen are disillusioned about medium-term economic prospects for Germany and France, said a survey by UPS Europe Business Monitor. Page 2

Ireland to hit Emu target
Irish finance minister Charlie McCreevy told the Dublin parliament the country will meet the debt requirements for membership of the European single currency by 2000. Page 3

Yeltsin announces army cuts
President Yeltsin announced that conventional forces in north-west Russia would be sharply cut next year. Page 2

Estonia report attacked
The official report into the 1994 Estonia ferry disaster, in which 852 died when it sank in the Baltic, was condemned as incomplete and inaccurate by the ship's German builders Meyer Werft. Page 3

The last straw
Californian company BioFab has designed an environmentally friendly bio-degradable coffin made from rice straw heated and pressed into boards.

BUSINESS NEWS

Spectre of recession as Japanese GDP drops 1.4%

Japan is in effect in recession, according to data that showed its gross domestic product contracting 1.4 per cent in the six months to September compared with the previous half year.
Page 14; Tokyo pumps liquidity into bank system, Page 6; Yamaichi clients pull out $93bn, Page 15; Samuel Brittan, Page 12

World Trade Organisation chief Renato Ruggiero warned that a global pact to liberalise financial services could fail if countries did not present offers soon. With eight days to go to the December 12 deadline Malaysia, Indonesia and Brazil have yet to table offers.

PolyGram, the Dutch entertainment group, has agreed terms to acquire for $225m *The Graduate, Blue Velvet, When Harry Met Sally* and other feature films that once belonged to troubled French bank Crédit Lyonnais. Page 15; Crédit Lyonnais rescue delay, Page 3

Minority shareholders' efforts to force Swedish investment company Trustor into liquidation looked stronger after a dissenting shareholder withdrew objections to the application. Page 20

Shares in NBM-Amstelland, the Dutch construction group, fell nearly 8 per cent after chairman André Baar, 54, was held on suspicion of money laundering. Page 20

BTG, the UK intellectual property company, outlined an injection that makes varicose veins disappear and a scanner that can detect drugs in luggage among potential new products. Page 22; Technology, Page 10

Westdeutsche Landesbank, Germany's biggest public sector bank, is making a last minute attempt to take over Finance One, Thailand's largest suspended finance company, which faces possible liquidation next Monday. Page 15

H.J. Heinz shares surged $1¾, or 3 per cent, to a record high of $54¼ in early trading as Wall Street digested the implications of Tony O'Reilly's decision to step down as chief executive. Page 16; Observer, Page 18; Lex, Page 14

Geneviève Gomez, a former top executive at Banque Indosuez and Elf Aquitaine, is set to be appointed managing director of the state owned French banking group Société Marseillaise de Crédit. Page 21

Speculation intensified that KLM, the Dutch airline, was on the verge of announcing a strategic alliance with Alitalia, Italy's national carrier. Page 20; Lex, Page 14

Gucci, the Italian fashion group, unveiled a fall in net third quarter profits to $48.1m from $46m because of adverse exchange rates and a slowdown in the Asian market. Page 21

Poland's new government has sacked the top management at Telekomunikacja Polska, the state-owned telecommunications operator, ahead of its partial flotation next year. Page 21

TrizecHahn, the Canadian property company, has acquired effective ownership of the Sears Tower in Chicago by taking over a second mortgage on the building at a discount price of US$70m. Page 15

The French government hinted that it was likely to restructure export credit insurer Coface or change its ownership if the insurer AGF passed into foreign hands. Page 20

Move deals fresh blow to farmers' hopes of ending EU curbs

UK plans to ban beef on bone after BSE link

By George Parker, Maggie Urry and Michael Smith in London

UK hopes of securing an end to the European Union beef export ban were dealt a serious blow yesterday when the government revealed that BSE, or mad cow disease, might be transmitted through beef bones.

Jack Cunningham, agriculture minister, responded by announcing plans to ban the sale of beef on the bone, including cuts such as T-bone steaks, ribs and oxtails.

Although those products account for only 5 per cent of the UK beef market, the government's new scientific advice will spark renewed concern across the Continent.

Mr Cunningham conceded that, in the light of the new advice, he could not give any guarantee that consumers had not eaten BSE-infected beef over the past 18 months.

Yesterday's announcement will cause further alarm in Britain's beef industry, where farmers are already suffering from depressed prices and falling incomes.

Some Welsh farmers have recently blockaded ferry ports to halt trucks carrying cheap Irish beef imports.

European Commission officials reacted with weary dismay at the latest beef scare to emerge from the UK, the result of new research by the Spongiform Encephalopathy Advisory Committee (Seac).

Mr Cunningham said that the risks to human health posed by infectivity in cattle bones was "very, very, small". Some Tory MPs responded by suggesting he should have allowed the sale of beef on the bone to continue, and should have allowed consumers to use their discretion.

Professor John Pattison, chairman of Seac, estimated that only about three animals out of a total of 2.2m cattle which "will go into the human food chain in 1998" could pose a threat to human health. But Mr Cunningham defended his action.

Gesture on 'mad cow' rules....Page 8
Farmers face fresh setback....Page 9
Editorial Comment ....Page 13

"I could not contemplate having this advice and knowingly allowing infected BSE material into the food chain," he said.

The minister also promised an announcement soon on a possible public inquiry into the UK government's handling of the BSE crisis, which would inevitably focus largely on the actions of the previous Tory administration.

Mr Cunningham admitted that the new scientific advice could make it more difficult for the UK to obtain a lifting of the beef ban, but insisted: "I am committed to being open and honest about this problem – in Europe and in Britain."

The UK beef industry has been in a state of crisis since the EU imposed its ban on exports in March 1996, when Seac first suggested a link between BSE and Creutzfeldt Jakob disease, its human equivalent.

Farmers yesterday expressed dismay at the "drip feed" of evidence emerging from the scientists, and its impact on consumer confidence and initiatives to persuade the EU to end the ban.

Yesterday's announcement will be followed by a brief consultation period before orders are laid in Parliament to implement the beef-on-the-bone ban, which could be in effect before Christmas.

Downing Street argued that the proposed ban would help to ensure consumer confidence.

"We have taken decisive action which will help, not hinder, the lifting of the European ban," the prime minister's official spokesman said.

But Germany was already antagonistic to UK plans for an early lifting of the beef export ban, arguing that the UK must first demonstrate that it can halt illegal exports of beef.

It says it has detected imports from the UK amounting to 600 tonnes since the ban was introduced, compared to an average of 50 tonnes a year prior to the ban.

The news comes at a bad time for the farming industry. Earlier this week, the government said farm incomes would fall by 37 per cent in real terms this year.

Farmers pleas for additional compensation from the government have so far not been met.

Sir David Naish, president of the National Farmers' Union, said the news could be "the last straw" for the industry, which was already "flat on its back".

He said he was concerned that the handling of the proposed ban could cause another crisis of consumer confidence, undermining beef prices further.

Butchers including Guy Dambrauskas, from York in northern England, face a new blow as the UK said it could not guarantee consumers had not recently eaten BSE-infected beef Picture: PA

Seoul gets $55bn with orders to reshape economy

By John Burton in Seoul

The International Monetary Fund yesterday mounted its biggest rescue with a $55bn funding package for South Korea to solve the debt crisis engulfing the world's 11th largest economy and ease Asia's financial turmoil.

The rescue plan was finally agreed when the Korean government gave up a dogged struggle to preserve the main elements of its *dirigiste* economic structure.

Michel Camdessus, IMF managing director, intervened directly to bring a quick end to the negotiations after Seoul prematurely announced an agreement on Sunday. Both Mr Camdessus and Lim Chang-yuel, the Korean finance minister, announced yesterday's deal.

Mr Camdessus indicated the conditions attached to the package could lead to a profound transformation of Korea's regimented economy.

Mr Lim said the country faced painful restructuring. "But these pains and burdens are the cost our economy has inevitably to pay to revive and to recover our lowered credibility in the world financial society," he said.

Mr Camdessus said the IMF programme included "far-reaching financial reform".

Robert Rubin, the US Treasury secretary, said the programme included "significant financial restructuring and measures to open up Korea's financial markets to foreign participation and improve corporate governance".

The finance ministry said it was likely Seoul would be forced to curb economic growth, restructure its indebted financial system, open capital markets wider to overseas investors, reduce trade barriers, and allow increased foreign participation in the banking and corporate sectors.

Mr Camdessus said the IMF would provide $21bn in three-year standby credits, with the World Bank contributing an additional $10bn and the Asian Development Bank $4bn.

Other countries would

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Toyota assembly plant set to be built in France

By David Owen in Paris and Michiyo Nakamoto in Tokyo

Toyota, Japan's biggest carmaker, is set to announce plans to build a FFr3.5bn ($590m) car assembly plant in France, dashing UK hopes that it would extend its car manufacturing facility at Burnaston in the Midlands.

Dominique Strauss-Kahn, the French finance minister, came close to confirming the move after a cabinet meeting yesterday, saying he believed the Japanese group had "indeed taken a decision to come to France".

He continued: "Some aspects on the choice of the site are still under discussion, so I do not want to make a definitive statement. But Toyota's coming to France is virtually certain."

Lionel Jospin, the French prime minister, and Hiroshi Okuda, the Toyota chairman, are expected to make a formal announcement next Tuesday in Paris. Toyota yesterday would not confirm it had officially notified the French government of its decision, but said preparations for an announcement were well under way.

The plant is expected initially to create 1,000 direct jobs and to have an annual capacity of 100,000 vehicles with a start-up in 2001. It is likely to be located

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Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	7,979.29	(−39.54)
NASDAQ Composite	1,592.21	(−14.16)
Europe and Far East		
CAC40	2,902.35	(−10.74)
DAX	4,082.68	(+9.93)
FTSE 100	4,970.7	(−6.8)
Nikkei	16,685.51	(−324.78)
US LUNCHTIME RATES		
Federal Funds	5⅝%	
3-mth Treas Bills: Yld	5.228%	
Long Bond	101⅛	
Yield	6.012%	
OTHER RATES		
UK: 3-mo Interbank	7⅞%	(7⅞%)
UK: 10 yr Gilt	105.5469	(105.656)
France: 10 yr OAT	100.6	(100.66)
Germany: 10 yr Bund	104.18	(104.27)
Japan: 10 yr JGB	108.34	(108.83)
NORTH SEA OIL (Argus)		
Brent Dated	$17.835	(17.86)

GOLD		
New York: Comex		
(Dec)	$292.8	(294.4)
London:		
	$292.65	(294.65)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.683	
DM	1.7692	
FFr	5.92	
SFr	1.42725	
Y	128.63	
London:		
£	1.6639	(1.6823)
DM	1.7684	(1.7746)
FFr	5.9186	(5.94)
SFr	1.4277	(1.4325)
Y	128.635	(128.685)
Tokyo close		Y 128.65
Sterling		
DM	2.9777	(2.9854)

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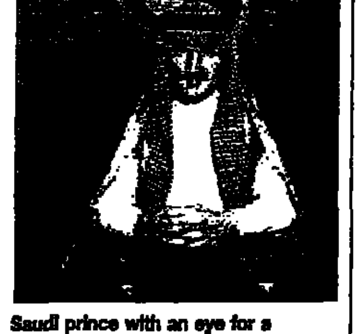

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FINANCE

Berlusconi given jail sentence

By James Blitz in Rome

Silvio Berlusconi, leader of Italy's centre-right opposition, was yesterday convicted by a Milan tribunal of having helped to compile false accounts during the acquisition by his Fininvest group of a film business.

He was formally sentenced to 16 months in prison, but the sentence was immediately quashed by the court and Mr Berlusconi, prime minister for seven months in 1994, was ordered to pay a fine of L10m ($5,780).

However, the conviction is his first since a range of corruption and embezzlement accusations began to emerge some years ago.

Mr Berlusconi's conviction relates to the purchase by Fininvest of the Medusa film business in 1988. The prosecution alleged that Mr Berlusconi and four business associates paid less for Medusa than the L28bn ($16.2m) recorded on Fininvest's balance sheet.

However, the judge said Mr Berlusconi, who has already paid L17bn in damages in the case, would not go to jail. The judge's explanation for this will be published in 45 days.

Mr Berlusconi has repeatedly denied the charges. But the conviction will compound pressure from within the rightwing coalition for him to stand down as leader.

Yesterday's sentence is the latest blow for Mr Berlusconi. He is facing other corruption charges, and recently was forced to concede that he would not become prime minister if the centre-right "Freedom Alliance" won power soon.

His position has not been helped by the disastrous performance of his alliance in two recent elections. The alliance won about 25 elections for mayor in towns of more than 15,000 people, while the ruling centre-left coalition won 42.

The leadership of Alleanza Nazionale (AN), the neo-fascist group allied to Mr Berlusconi's Forza Italia, has pledged to hold a summit this Saturday to reconsider its strategy.

There are suggestions within AN that Gianfranco Fini, the party's leader, might consider a break with Mr Berlusconi.

Meanwhile, open war appears to have broken out in Sicily between Forza Italia, the party Mr Berlusconi founded, and the small former Christian Democrat parties in the opposition alliance.

Rivals battle for the SPD's soul

While the party loves old-style social democrat Oskar Lafontaine and the public prefers moderniser Gerhard Schröder, SPD electoral prospects are uncertain, writes **Ralph Atkins**

Gerhard Schröder, the opposition Social Democrat who is contemplating a bid for the German chancellorship next year, hardly expected to be showered in glory at this week's party conference in Hanover.

But he perhaps underestimated the challenge that will face him today when he rises to speak on the last day of the SPD's conference.

As Mr Schröder predicted, it has been "Oskar's conference". Oskar Lafontaine, SPD chairman and Mr Schröder's rival to be its candidate for the chancellorship, enthralled the party with a storming speech on Tuesday that defended an unreformed social state and scorned shareholder values.

He also snookered Mr Schröder with an emphasis on conserving Germany's social institutions that contrasted with the Lower Saxony premier's modernising instincts.

Mr Lafontaine's reward was a five-minute standing ovation – triumphant by German standards – and re-election as party chairman with 93.2 per cent of valid votes.

Whose hand on the steering wheel? Oskar Lafontaine, left, and Gerhard Schröder vie for the right to challenge Chancellor Helmut Kohl next year Reuters

Mr Schröder was re-elected to the SPD's executive committee yesterday with almost 75 per cent of delegates' votes.

Mr Lafontaine's success has been based, first, on a tight grip on party structures. Discipline has improved markedly since an SPD conference in Mannheim two years ago, when Mr Lafontaine seized the leadership from Rudolf Scharping, who had failed to halt one of the party's most disruptive bouts of post-war disunity.

This week Mr Lafontaine has also demonstrated his control of policy. His speech excited delegates with an attempt at evoking the social and international motifs of the late Willy Brandt, an SPD legend who was chancellor between 1969 and 1974.

Mr Lafontaine, his opponents were quick to argue, could still have been living in the 1970s, urging business to put workers' interests above share value and advocating Keynesian demand management to create jobs.

He proposed that the European Union should harmonise taxes and co-ordinate economic policies to stop a "downward race" to cut business costs. The Group of Seven industrialised countries should act against financial market speculation and stabilise exchange rates.

"At the least, target corridors must be agreed to limit speculation and allow a return to rational economic decision-making," he said.

The contrasts between Mr Lafontaine's ideas and those of Mr Schröder seem obvious. Although staunch in his defence of social values and jobs, Mr Schröder wants the SPD to be more pro-business and responsive to global competition.

He also sees change to generous social security benefits, particularly the overburdened pay-as-you-go pension system, as inevitable. But his tone in today's debate on innovation – a subject hardly mentioned by Mr Lafontaine – will be measured.

He can play a longer game. Mr Schröder's hopes rest more crucially on the result of elections in Lower Saxony next March - shortly before the party picks its chancellor candidate.

If the SPD vote falls more than two percentage points below the 44 per cent won in 1994, Mr Schröder says he will withdraw from the chancellor race.

If he does well, he could argue with force that only under his leadership can the SPD win next September's federal elections, although it would probably still need support from the Green party in government.

Opinion polls suggest Mr Schröder has a much better chance of beating Helmut Kohl, the chancellor.

The danger is that his party may not yet fully comprehend what is required to maximise its chances of victory. By UK Labour party standards, the SPD's use of modern campaign techniques and the media is primitive.

While discipline and unity are important, it is unclear if Mr Lafontaine has rallied his party around a election-winning agenda. His case depends on voters – not just SPD delegates – accepting that his policies would do more to solve Germany's economic and social problems than Mr Kohl's attempts at gradual reform.

For Mr Schröder to signal a significant change in direction will be difficult. Mr Lafontaine likes to emphasise teamwork, but his digs at Mr Schröder – whom he did not mention once in his speech – have seemed palpable.

For instance, he made much of proposals for higher taxes on energy consumption and financial penalties for companies failing to provide apprenticeships – both areas where Mr Schröder has signalled unease.

If Mr Schröder is chosen as chancellor candidate, it is unclear how fast the party would switch allegiance.

Yesterday Mr Scharping concluded that the Mannheim conference had signalled the end of the SPD's 15 years in opposition.

Hanover would mark "the beginning of many years of Social Democratic rule". But if Hanover has illustrated anything, it is that there is a long way to go before September.

See Editorial Comment

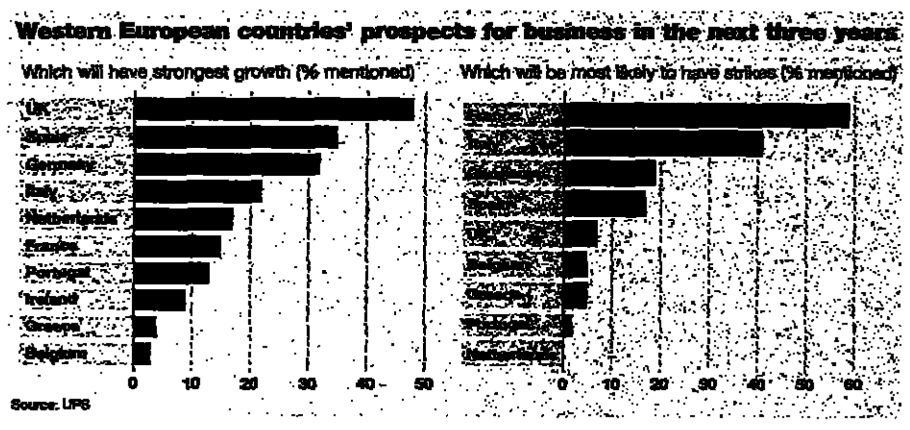
Businessmen gloomy about growth

By Wolfgang Münchau, Economics Correspondent

Europe's leading businessmen are disillusioned about the medium-term economic prospects of Germany and France, according to an annual survey by UPS Europe Business Monitor.

Germany was knocked off the top spot as the country forecast to show the strongest economic growth over the next three years. Only 32 per cent of respondents thought that Germany would enjoy the highest western European growth rates, compared with 54 per cent last year.

Germany now trails the UK (48 per cent) and Spain (35 per cent). France fell from fourth to sixth place behind Italy and the Netherlands. Another poor performer was Belgium, which scored lower than Greece.



The survey was commissioned by UPS, the postal services company, and was carried out by Harris, the opinion research group. It was based on 1,475 interviews with European business leaders in seven countries during September and October.

The survey's results contrast sharply with traditional economic forecasts, including a recent projection by the European Commission, according to which UK economic growth will be the lowest of all EU countries next year. Growth in Germany and France, by contrast, are forecast to pick up strongly after a long period of sluggishness.

While a survey of this nature has shortcomings as an economic forecasting tool, its results are considered a useful gauge of current business sentiment.

European business leaders now seem significantly more optimistic about the future than they were last year. A net 51 per cent of business leaders reported an improvement in their businesses over the previous 12 months, compared with only 25 per cent last year.

A large majority support economic and monetary union, and are optimistic about its implications for the European economy and their own companies.

Business executives have also become less pessimistic about the labour market. The pace of job losses is forecast to slow down in the next 12 months, but with significant national variations. Germany and France are expected to suffer continued falling employment, while in the UK and the Netherlands the number of jobs is expected to increase further.

Yeltsin offers big cut in forces

By Alexander Nicoll in Brussels and Tim Burt in Stockholm

President Boris Yeltsin yesterday announced that conventional forces in north-west Russia would be sharply cut next year. It was his second dramatic attempt in two days to reduce concerns among Russia's European neighbours about future military threats from Moscow.

Mr Yeltsin's comments, in a speech to the Swedish parliament in Stockholm, were a deliberate statement of policy, in contrast to his off-the-cuff promise on Tuesday of a further one-third cut in nuclear warheads, which was interpreted in the west as offering nothing new.

Although the precise import of yesterday's undertaking was unclear, it was cautiously welcomed in Brussels, where defence ministers of the Nato alliance were meeting their Russian counterpart, Marshal Igor Sergeyev, within the structure of the Nato/Russia Permanent Joint Council.

Marshal Sergeyev confirmed that by January 1999, forces would be reduced by 40 per cent in the regions which Moscow considered most secure, namely the Kaliningrad enclave and the St Petersburg region, as well as in the northern and Baltic fleets. According to the London-based International Institute for Strategic Studies, these regions host 82,000 soldiers, two naval infantry brigades, 79 submarines and 68 combat ships.

In Stockholm, Yevgeny Primakov, foreign minister, also emphasised that the cuts would form part of the steady reduction in Russia's overall armed forces.

William Cohen, the US defence secretary, declined to comment on the Russian statements but called on the Duma, Russia's parliament, to ratify the Start 2 treaty so that the next stage of arms reduction, Start 3, could be negotiated.

Officials believed that Mr Yeltsin's comment on nuclear warheads was in line with previous suggestions about the starting point for Start 3 talks, and Marshal Sergeyev said the one third cut should be considered as a possible lower ceiling for Start 3.

Nato officials said they needed more details about the undertaking on conventional forces but that it could reduce tensions in the Baltic region. They welcomed any statement which suggested that the Russian military was being reformed to improve training and co-operation with the west, and to reduce insularism.

Mr Yeltsin proposed "a regime of confidence" along its western borders, with hotlines between the region's militaries, mutual inspections of military facilities, joint control over Baltic airspace and joint exercises.

His remarks reflected Russia's concern – in spite of its own closer relationship with Nato – about the desire of Baltic states to join Nato in the footsteps of Poland, Hungary and the Czech Republic which are due to join next year. Most other non-Nato European countries are also rapidly developing military-to-military links with Nato through the Partnership for Peace programme.

Marshal Sergeyev reiterated Russia's opposition to Nato enlargement and complained about recent military exercises carried out close to Russian territory.

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Spain claims diplomatic success in Gibraltar clash

By Tom Burns in Madrid

Spain and Britain are putting different interpretations on the outcome of a Nato defence ministers' meeting on Tuesday which cleared the way for a streamlined alliance command incorporating Spain for the first time.

Abel Matutes, Spanish foreign minister, greeted a British decision to drop its threat to veto a Nato headquarters in Spain while Madrid maintained naval and air restrictions on Gibraltar as a diplomatic success for Madrid. However, UK officials said yesterday that London would block appointments to the Spanish headquarters, reducing it to a "paper command", unless Madrid improved access to the disputed British colony. They said Spanish "triumphalism" was "unhelpful".

Senior British and Spanish diplomats are to hold talks in Madrid tomorrow in an attempt to agree a formula that will satisfy honour on both sides before December 16, when Nato's foreign ministers meet to approve the new command arrangements. Under the streamlined structure, a small Nato command based on Gibraltar will be scrapped. The compromise is likely to entail limited Spanish involvement in the control of Gibraltar's airport and a partial lifting of the restrictions.

Britain turned down an earlier Spanish offer to allow full access to Gibraltar in return for joint military use of the Rock's airport after protests from Gibraltar's 30,000-strong community, which rejects Spanish claims to the colony.

While London seeks to use Spain's Nato role as a lever to end the restrictions, Madrid is using them in order to further its own aims in the dispute over Gibraltar.

Tomorrow's talks will prepare the ground for a December 10 meeting in London at which Mr Matutes intends to broach Spain's sovereignty claims over Gibraltar with Robin Cook, UK foreign secretary.

Spanish officials said Mr Matutes would take "creative and generous" proposals with him to London.

Matutes: 'creative' ideas on Gibraltar dispute

He is likely to offer a power-sharing arrangement, modelled on Andorra's constitution in which Spain and France nominally share sovereignty, that will allow Gibraltarians to retain their British nationality and their self-governing institutions.

NEWS DIGEST

Overhaul for anti-trust fines

A new method for determining the size of fines to be imposed on companies that break European Union anti-trust rules was presented by the European Commission yesterday.

The new system will define a base sum related to the length and gravity of an abuse, but with no reference to the turnover of the company in question. This will then be adjusted up or down, according to aggravating or mitigating circumstances.

Under EU treaty rules, the Commission can impose fines on companies that infringe articles covering restrictive agreements, abuse of a dominant position and anti-competitive arrangements.

The new method is designed to bring greater coherence to the setting of fines, which in the past has appeared somewhat arbitrary. According to their gravity, infringements will fall into three categories: minor, with a maximum fine of Ecu1m ($1.1m) serious, with a maximum fine of Ecu20m; and very serious, with fines of over Ecu20m.

Emma Tucker, Brussels

■ ITALIAN TELECOMS/TV

New regulator appointed

Italy's government has announced the appointment of a joint regulator for the telecommunications and television industries.

In a sign that the Party of the Democratic Left (PDS) is regaining ground within the ruling coalition over appointments to crucial jobs, Enzo Cheli, a former board-member of Rai, the state television service, has emerged as the government's nominee for the newly created position.

Mr Cheli was chosen after a meeting on Tuesday night between Romano Prodi, prime minister, and Massimo d'Alema, PDS leader, over appointments to be made to Italy's main regulatory bodies in the next few days.

Mr Cheli is being portrayed in the Italian media as the PDS's "candidate" for the post. His appointment follows expressions of disappointment by Mr d'Alema's allies at the weekend over the resignation of Guido Rossi, the Telecom Italia chairman, after he had attempted to introduce new corporate governance rules to the company.

Assuming that Mr Cheli accepts the post, he will have one of the most sensitive positions in the public sector, not least because of the impact of telecoms liberalisation next January.

James Blitz, Rome

■ SERBIAN POLITICS

Socialists hold speaker's post

The Serbian Socialist party (SPS) of Slobodan Milosevic, the Yugoslav president, yesterday secured the important position of speaker of parliament.

Dragan Tomic, speaker in the previous parliament and a close ally of Mr Milosevic, was appointed again when parliament met for the first time since the SPS-led coalition lost its majority in elections on September 21.

Mr Tomic will also remain acting president of Serbia. He said the SPS would attempt to form a government after the re-run of Serbia's presidential elections on Sunday.

The ultra-nationalist Radical party, now the second largest party after the SPS, said it wanted the position of prime minister if it joined a coalition. Vojislav Seselj, the leader of the Radicals, who has been described by a senior US envoy as a "fascist", won the Serbian presidential elections in October but the result was invalidated by a low turnout – an outcome that could be repeated this month.

Serbia has been without a president since July, when Mr Milosevic, barred by the constitution from seeking a third term, switched to the federal Yugoslav presidency.

Guy Dinmore, Belgrade

■ FRENCH CAPITAL CONTRIBUTIONS

Companies to get FFr90bn

France looks set to put about FFr90bn ($15.3bn) in capital contributions into public sector companies in 1997 and 1998, with FFr56.5bn coming this year – more than double the figure included in the initial finance law.

The finance ministry indicated yesterday that this budget would permit it to make contributions to public enterprises on the following basis:

- EPFR and EPRD, entities set up to help rescue Crédit Lyonnais and Comptoir des Entrepreneurs respectively, FFr24bn
- Réseau Ferré de France, the company that owns France's rail network, FFr18bn
- GAN, the insurer, FFr14.5bn
- Thomson Multimedia, consumer electronics, FFr11bn
- Giat, armaments, FFr9bn
- Charbonnages de France, coal, FFr5.5bn
- Other enterprises would receive FFr4.5bn, while risk capital would account for FFr1bn and commissions for FFr2.5bn.

The scale of the planned capital contributions is likely to keep pressure on the Socialist-led government to sanction more sales of state assets, since it is the receipts from such disposals that are expected to pay for them.

David Owen, Paris

■ GERMAN NEO-NAZIS

Six soldiers face action

The German defence ministry said yesterday it had opened disciplinary proceedings against six soldiers who decorated a room in their barracks with pictures of Adolf Hitler and pre-war army flags for a drinking party.

The ministry said the incident had taken place in the southern town of Altenstadt in 1993 but had come to the attention of officers only this week, when they received photographs showing the soldiers with Nazi symbols.

A ministry spokesman confirmed an account in the newspaper Bild, which said the soldiers had also shouted extreme rightwing slogans during the party.

The incident was the latest in a string of highly publicised cases linking German soldiers with rightwing extremism. In October the ministry said 80 incidents of suspected extreme rightwing activity had been reported in the first eight months of 1997, compared with 46 for the whole of 1996.

Reuters, Bonn

■ GERMAN ECONOMY

Industrial production rises

German industrial production recovered in October, increasing by a seasonally adjusted 1.8 per cent from September. September production was revised upwards to show a fall of 0.4 per cent from August, compared with a drop of 1.6 per cent reported a month ago.

The recovery, after two months of declines, was seen by analysts as a sign that activity had returned to its medium term growth trend after weakness reflecting late summer holidays.

The economics ministry said yesterday the late holidays helped cause a 2 per cent fall in overall industrial output in September and October compared with July and August. But production in the latest two months was 2.6 per cent higher than in September and October last year, with manufacturing output up 4.7 per cent compared with the year before.

The Munich-based Ifo economic research institute forecast that German manufacturing output will grow by 4 per cent next year and that investment in plant and equipment will expand by 6.5 per cent in 1998.

Peter Norman, Bonn

Uno Laur: made no comment about internal splits and delays which dogged the inquiry

Shipyard condemns Estonia report

By Tim Burt in Stockholm and Matej Vipotnik in Tallinn

The official report into the Estonia ferry disaster of 1994 was condemned yesterday as incomplete and inaccurate by the German manufacturers of the ship, which sank with the loss of 852 lives.

Lawyers acting for Meyer Werft, the yard which built the Estonia, said the report was flawed in asserting that design faults and poor manufacturing of the ship's bow door locking mechanisms were mainly to blame for the accident. The Estonia sank in September 1994, between Tallinn and Stockholm, after its bow door was ripped off in heavy seas.

Yesterday's report, due to have been published more than two years ago, concluded that the ship should have been fitted with stronger water-tight locks and a better designed outer visor.

However, shipping experts commissioned by Meyer Werft to conduct a separate inquiry said the Estonia was poorly maintained and unseaworthy at the time of the accident. "The intellectual value of this report is less than the paper it is printed on," said Peter Holtappels, senior partner of Hamburg law firm Ahlers & Vogel and chairman of the Meyer Werft panel.

While the three-nation Commission of Inquiry contradicted most of Meyer Werft's contentions, it acknowledged that the crew might have contributed to the loss of life by not reducing the ship's speed or not evacuating passengers speedily enough.

The commission – drawn from Sweden, Finland and Estonia – also concluded the ship's alarm systems had failed to alert the crew that the bow door had sheared off. But it emphasised that it was not apportioning blame or liability for the sinking, one of the world's worst maritime accidents.

Among 15 recommendations aimed at avoiding similar tragedies, the report called for stricter criteria in the "design, manufacturing, assembly and approval of components critical for the safety of passenger vessels".

They also urged ferry operators to review the design safety of elderly vessels and evacuation procedures.

Uno Laur, chairman of the commission, said shipowners should bear the cost of updating vessels which did not conform to safety standards. He made no comment about internal splits and delays which have dogged the inquiry. Several members of the original inquiry team resigned during the drafting of the report.

Meanwhile, Swedish investigators began studying the findings for any evidence of criminal liability. Thomas Lindstrand, state prosecutor, said he would decide next month whether to begin proceedings. Pressure groups representing families of the Estonia victims are pressing for compensation, and have initiated legal proceedings against Meyer Werft.

Ireland on course to join euro

By John Murray Brown in Dublin

Ireland is to meet the debt requirements for membership of the European single currency by 2000, Charlie McCreevy, finance minister, told parliament yesterday.

Unveiling a projected budget surplus for 1997-98 and the following two years, Mr McCreevy said Ireland's debt to gross domestic product ratio would fall from 67 per cent in 1997 to 57 per cent by 2000, against the 60 per cent limit set by the European Union's Maastricht treaty.

Mr McCreevy, an accountant by background, said his aim was to control public spending and correct tax inequities, striking a balance between "proper rectitude and punitive rigour".

With the European Commission set to decide who qualified for the euro on the basis of 1997-98 budget figures, Ireland was well set to make the grade.

The budget would be in surplus next year, at 0.3 of GDP in 1997-98, 0.6 per cent in 1998-99 and 1.3 per cent in 1999-2000.

The government expects to borrow I£89m ($132m) to meet its spending shortfall, eliminating exchequer borrowing by 2000.

Current spending will rise by 3.7 per cent in 1997-98, including a I£517m tax and allowance package, which will take 15,000 people out of the tax net. Capital spending is kept below 5 per cent.

Announcing a 2p fall in income tax, Mr McCreevy pledged the standard rate would be brought down to 20 per cent "in the next few budgets".

Standard corporation tax was cut from 36 per cent to 32 per cent, in line with plans to adopt a universal rate of 12.5 per cent by 2006. Ireland's special 10 per cent corporate tax rate for manufacturing companies has been a bone of contention, with other EU member-states complaining that it distorts investment flows and diverts exchequer receipts.

By tightening up on tax shelters enjoyed by the rich, and tax allowance schemes, Mr McCreevy projected savings of up to I£20m in one year.

Capital gains tax was halved to 20 per cent. Duty on cigarettes and petrol was increased, while drink remained unchanged.

One of the biggest reactions was prompted by his pledge to supply I£20m over the next three years for the Gaelic Athletic Association, the governing body of Ireland's national sport.

Michael Noonan, the opposition Fine Gael finance spokesman, accused Mr McCreevy of "creative accounting". He said it was an expansionary budget, which would increase consumer demand.

EU asylum seeker policies slammed

By Emma Tucker in Brussels

Asylum seekers are being driven out of Europe as a result of a push by European Union member states to co-ordinate their policies on asylum, Amnesty International claimed yesterday.

The human rights group said countries were using the harmonisation process as a covert way to reduce flows of refugees to their territories, thus reneging on their responsibilities under international law.

"The right to seek and enjoy asylum has been continuously eroded by EU member states over the past few years, neglecting the European tradition of solidarity and hospitality to those in need, and violating international obligations," said the organisation.

Amnesty has sent a letter to EU interior and justice ministers meeting in Brussels today, urging them to reverse the thrust of asylum policies. It is particularly opposed to the policy of sending asylum seekers back to "safe" third countries through which they have passed, without properly considering their claims.

Amnesty and other refugee organisations have stepped up their campaign after important changes to the way EU member states co-ordinate asylum and immigration policy.

Until now, asylum policy had been a matter for loose intergovernmental co-operation, making it easy for countries that disagreed with policies to go their own way. But under the new Amsterdam Treaty, decisions on asylum and refugee policy are legally binding on all member states.

During a period of five years after the revised treaty comes into force, member states will only be able to take decisions after unanimous votes. However, after five years, they can vote unanimously to make decisions, subject to majority voting.

Despite its concerns about the harmonisation process, Amnesty believes the removal of asylum policies from the direct authority of interior ministries "obsessed" with the daily numbers count of asylum applications provides a good opportunity for the EU to rethink its approach.

In its letter, it urges member states to stop the practice of "dumping" refugees in the EU's immediate neighbouring states – classified by most EU members as "safe" countries and therefore eligible to consider asylum applications.

Many of these countries aspiring to EU membership, are adopting a similar approach, with the effect that asylum seekers are being pushed further and further back, to countries that although classified as "safe" do not provide minimum guarantees, and do not have the necessary infrastructure to deal with asylum seekers adequately.

Amnesty has proposed a series of specific steps to the EU member states, aimed at improving their asylum policies. It wants all measures taken to respect international standards for refugee protection; ensuring adequate means of subsistence for asylum seekers while they wait for a decision on their claim; and new and more generous minimum guarantees for asylum seekers.

Crédit Lyonnais rescue plan delayed

By Andrew Jack in Paris and Emma Tucker in Brussels

Continued disagreements with the French government over a new rescue plan for Crédit Lyonnais, the French state-owned bank, have forced the European Commission to delay a decision on approving the plan until at least the start of next year.

EU officials confirmed yesterday that Karel Van Miert, the competition commissioner, who has to decide whether to accept the French government's demands to give the bank extra state aid, will not present his case to the full Commission until January at the earliest. A decision was due in mid-December.

The discussions centre on whether to separate the aid provided to Crédit Lyonnais from that given to CDR, the state-controlled vehicle set up to sell off more than FFr200bn ($34bn) in gross assets removed from the bank's balance sheet for sale under a plan agreed in 1995.

The Commission argues the two organisations must be considered as part of the same rescue plan, and that Crédit Lyonnais should incur significant additional penalties in response to rising estimates of the total cost of the rescue.

However, Dominique Strauss-Kahn, the finance, economics and industry minister, has argued in meetings with Mr Van Miert that the two entities should be considered separately, and Crédit Lyonnais should not be penalised for the losses registered by CDR.

Executives at CDR have been angered by suggestions that the escalating costs of the bail-out are the result of the way in which their organisation has been managed. In an internal memo sent to staff last week, CDR's board expressed its "indignation" at the "campaign" suggesting they are responsible.

They argue that the total losses incurred by CDR are likely to be about FFr100bn, in line with estimates already provided last year, and considerably below figures of about FFr150bn now being circulated.

They stress that the losses – larger than the FFr45bn originally permitted in the 1995 plan – are the result of the fact that no audit was carried out into the assets ahead of the creation of CDR. They say Crédit Lyonnais failed to make adequate provisions ahead of the transfer of these assets.

They also disagree with the EU's method to assess total state aid.

PolyGram buys Crédit Lyonnais film library, Page 15

Debt arrear wrangle at Congo talks

Big loans to Mobutu regime now branded as irresponsible

By Michael Holman in Brussels

Liability for external debt arrears exceeding $1bn will be a significant feature of discussions when an international conference on the reconstruction of the Democratic Republic of Congo opens in Brussels today.

At the formal session of the "Friends of Congo" meeting being chaired by the World Bank, government delegates are expected to argue that three agencies – the World Bank, International Monetary Fund and Africa Development Bank – acted irresponsibly in lending to the ousted regime of President Mobutu Sese Seko despite evidence of endemic corruption.

Kabila: may receive some debt 'forgiveness'

Congo's external debt stands at $14.6bn – including $10bn to bilateral creditors (the Paris Club) and $3.1bn to multilateral lending agencies. This is equivalent to about 225 per cent of former Zaire's gross domestic product and more than 850 per cent of its exports.

Debt servicing, which had long been erratic, was discontinued altogether in 1993 and arrears have risen to about $9bn. The World Bank share of the debt is $1.4bn with arrears standing at $150m, while arrears on repayment to the IMF and Africa Development Bank total $450m and $550m respectively.

World Bank officials say that agreement on how to handle the arrears would have to be reached before new lending can get under way. But Congo's officials have argued that the lending institutions were in dereliction of their duties by allowing the Mobutu regime to run up such substantial external debts.

The issue surfaced during preliminary talks between donors and Kinshasa officials yesterday.

Bank officials acknowledged that repayment of the arrears presented a formidable obstacle to a successful recovery programme but emphasised that they would assist the government to find a solution given Congo's strategic importance.

Reconstruction of Congo is "among the highest priorities for Africa", said a World Bank statement. "Instability in the Congo and in the Great Lakes region has repercussions throughout the continent... a growing and prosperous Congo would have a very positive impact on regional stability."

Speaking in an interview in Kinshasa before the conference, Jean-Claude Masangu, governor of Congo's central bank, earlier told the Financial Times the aim was to get new funds flowing in that would exceed the amount Congo owed.

"The objective is to have a rescheduling and some forgiveness... We are talking about settling arrears of $1.1bn-$1.5bn out of the $14bn total, which is manageable."

Allegations of human rights abuses overshadowed the conference, with western donors expressing concern about the continuing hold-up of a United Nations probe into atrocities against Rwandan refugees.

Kyoto compromise move on gas agreement

By Bethan Hutton in Kyoto

The first compromise to emerge from the climate change discussions in Kyoto looks likely to be on the issue of which gases should be covered by any agreement.

Negotiating parties are split between those who want to deal only with the three basic greenhouse gases – carbon dioxide, methane and nitrous oxide – at this time, and those who also want an agreement covering three recently introduced types of gas.

Perfluorocarbons, sulphur hexafluoride, and hydrofluorocarbons (HFCs) have replaced the CFCs banned because of their damage to the ozone layer. Emissions of these gases are much smaller than the first group, but their global warming effect can be thousands of times stronger than carbon dioxide.

Raul Estrada, the Argentine chairman of the committee of the whole conference, yesterday proposed a compromise solution that would involve deferring commitment on the second three gases for a year, to allow further research and negotiations.

"It seems that the trend now is to agree in Kyoto on regulation of the three original gases," Mr Estrada said, but he added that at the same time participants would agree to develop an annexe to the Kyoto protocol to cover the remaining three gases, which would be adopted at the next climate change convention, planned for November next year. The approach is being called the "three plus three" or "two baskets" approach.

The EU and Japan have based their proposals on the first three gases, while the US, Canada and New Zealand are pressing for coverage of all six. EU officials yesterday described the three-plus-three proposal as "promising", but Japan, which could have more difficulty cutting emissions of the second three gases, was more guarded.

Melinda Kimble, of the US delegation, said Washington was concerned that another negotiation process would be required to deal with the other three gases.

Greenpeace, the environmental campaign group, said that dealing with the two "baskets" separately would open up a big loophole. "Every time they have done this with another big issue, it has just disappeared," said Matthew Spencer, science officer for Greenpeace. He pointed to the example of coverage of emissions from aircraft and shipping, which were set aside to be dealt with separately, and appear to have been dropped.

Hard task to win US friends for the earth

Climate change

If there is one US policy-maker who knows how the administration could build political support for a treaty to tackle climate change, it is probably Carol Browner.

As administrator of the Environmental Protection Agency (EPA), she has had to face down a torrent of anger from industry over the rather narrower, but also bitterly controversial issue of clean air standards.

To the surprise of many political observers, Congressional sceptics have so far failed to muster enough support to reverse or delay the tough new curbs on soot and smog which she announced last summer.

This in part reflects her decision to present air pollution as an issue of childrens' health – something no legislator can afford to dismiss. But building a constituency – in Congress, business and public opinion – for action to tackle climate change will be a much tougher assignment, according to Ms Browner and other advocates of action on global warming.

"The [climate change] issue is made harder by the fact that its consequences may not come to pass for some time, whereas with the air standards, you were talking about increases in asthma occurring here and now," says Ms Browner.

Ms Browner believes the administration should give a high priority to educating the public and countering the "bad information" which has been disseminated by business lobbies which oppose any mandatory curbs on the emission of heat-trapping greenhouse gases.

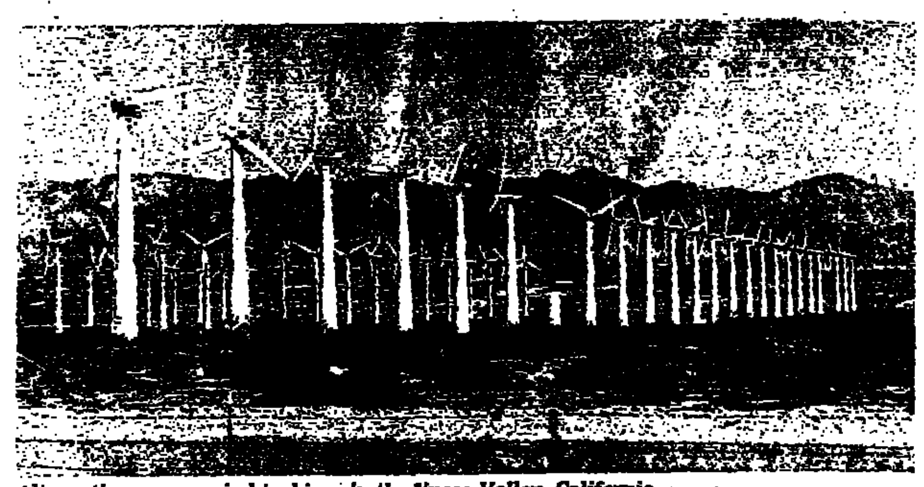
The sceptics' campaign has stressed the argument that heavy-handed environmental regulation is socially regressive: it hurts vulnerable groups such as small business, senior citizens and African-Americans, they say.

A massive advertising effort by opponents of early action on climate change – financed by the oil, coal, transport and manufacturing industry – has left the US public confused.

This campaign, the EPA boss says, "does nothing to allow honest, straightforward and information-based dialogue that could help to find appropriate solutions" and it exaggerates the degree to which carbon limits would require basic changes of life-style.

In practice, she added, the recent history of environmental regulation "hasn't been about life-style choices, it's been about large industry reducing its pollution – often through new, cost-effective technologies". Sceptics have argued that climate change differs radically from all other, more specific ecological problems in that it does require changes of lifestyle rather than quick fixes.

That might be true, concedes Ms Browner, "if you assume that we're going to do it solely based on the technology that exists today". But that was the wrong basis for policy: "You have to assume that even better tools to solve this problem will emerge."



Alternative power: wind turbines in the Yucca Valley, California Universal

Ms Browner said a long-awaited electricity restructuring bill, which the administration has promised to introduce early next year, would provide an opportunity to promote several public policy goals: energy efficiency, clean air and the limitation of carbon emissions.

While advocates of "fast-track" deregulation favour allowing a completely free hand in the choice of fuels, the EPA chief said the administration was considering retaining and refining the existing system of incentives to use renewable energy sources such as solar and wind power. But freeing up the power sector would not necessarily lead to a massive change in the fuels used in energy production, from coal to gas, Ms Browner said: the administration could not prejudge the results.

If the administration faces an uphill struggle with public opinion, it faces an even tougher battle in the Senate, which voted unanimously last summer to oppose any Kyoto treaty that damaged the US economy and failed to ensure that developing countries played their part.

President Bill Clinton insisted when he unveiled his climate change proposals in October that the US would require "meaningful participation" from developing countries before agreeing to any system of curbs by the industrial world.

David Hawkins, a lawyer with the Natural Resources Defense Council, said advocates of early action on climate change should simply appeal to the common-sense caution that Americans apply in daily life.

"If you're speeding down an unfamiliar road in the dark, you don't make the argument that nobody has proved the existence of any sharp curves," he said. "You slow down to be on the safe side."

Bruce Clark

Nuclear lobby finds its option is kept quiet

By Bethan Hutton

The Kyoto conference on climate change is an occasion for all governments to present their greenest possible face. But several of them are in the awkward position of relying on nuclear energy to cut greenhouse gas emissions – a point they prefer not to dwell on in public for fear of damaging their green credentials.

The nuclear power lobby – out in force at Kyoto – is, on the other hand, keen to point out that in terms of greenhouse gas emissions, nuclear power has a clear advantage. According to industry groups, nuclear generation prevents the emission of 2.3bn tonnes of carbon dioxide each year, if the same power were generated using oil or gas.

The nuclear lobby is trying to use climate change as an issue on which to turn the anti-nuclear tide which has led to the abandonment of nuclear programmes in most developed countries. But if the reticence of one big nuclear-generating country is anything to go by, pushing the "green nuclear energy" message is a losing battle.

Japan has one of the lowest per capita emissions levels among developed countries – helped in no small measure by its use of nuclear power. It is also intending to rely heavily on nuclear power to achieve further reductions, but that fact is not one it is choosing to publicise at Kyoto. Questions on the subject receive extremely curt replies, despite the Japanese government's previously announced plans to build a further 20 nuclear reactors.

But after decades of public acceptance of nuclear power, a recent series of accidents and cover-ups in Japan's nuclear industry have turned public opinion sharply against it. There are now serious doubts about whether Japan will be able to build more than one or two of the plants – which would threaten its planned cuts in greenhouse gas emissions.

No one is saying it loudly yet, but the Japanese public may eventually be presented with a clear choice: make significant lifestyle changes, in terms of domestic energy consumption and car use, or accept more nuclear power.

Lebanon weighs plan to cut waste and raise $2bn abroad

But there are doubts proposals to sharpen up bureaucracy will ever be implemented

By Roula Khalaf in London

Rafiq Hariri, Lebanon's prime minister, yesterday served up an economic plan aimed at trimming administrative waste and raising $2bn on international capital markets in a partial restructuring of Lebanon's debt.

The plan, presented to the cabinet, is a proposal by Mr Hariri worked out in a rare compromise with Nabih Berri, speaker of the parliament – a critic of the prime minister – and Elias Hrawi, the president.

The cabinet shot down Mr Hariri's proposal in September to raise $800m in new debt and impose new taxes and price increases considered unacceptable by the rest of the political class.

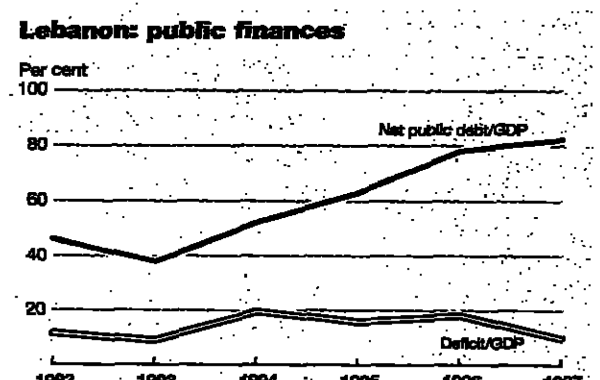
The compromise between Lebanon's "troika" comes amid rising concerns over deteriorating public finances. The budget deficit has been consistently overshooting its target and is now running at 53 per cent of spending.

With total debt reaching more than 85 per cent of gross domestic product, and pressures on the cash-strapped government to increase social spending, the currency market has grown increasingly nervous in recent months, forcing central bank intervention to support the Lebanese pound.

The political consensus has now sent a reassuring message to the currency market. The central bank this week was reported to be buying dollars instead of injecting foreign currency into the market.

But the short-term economic effects of the plan, which remains subject to parliamentary approval, will be limited. Its benefits in the long run will depend on whether the administrative measures outlined are put into practice.

Lebanon: public finances



Source: Ministry of Finance, 1997 Budget Report

Government officials said the $2bn ceiling would be raised in several tranches in the form of international bonds, syndicated loans and bilateral loans, depending on market conditions.

The foreign borrowings, with maturities reaching up to 30 years, should lead to a slight debt restructuring from expensive short-term Lebanese pound debt to cheaper longer-term foreign currency debt.

According to one economist, the savings on debt servicing in 1998 will be only about $120m out of a $2bn bill. Economists have also raised concerns that the plan includes few revenue-raising measures.

The most significant is a 1 per cent sales tax which will go into a fund at the central bank and be used to repay debt.

The news that attempts are being made to cut waste in a bloated administration has been welcomed in Beirut. But there is much scepticism whether the proposals will ever be implemented, especially since the plan specifies that several proposals will not be tackled until after the presidential elections, scheduled for summer 1998.

The budget deficit has consistently been overshooting its target

The measures include a hiring freeze, a merging of ministries and security bodies, and the creation of a department to which all surplus employees will be allocated to be retrained or given early retirement.

Previous attempts at shedding some of the 160,000 staff in the Lebanese bureaucracy have fallen prey to political and sectarian rivalries.

NEWS DIGEST

Strike shuts down Israel

Israel's public sector workers yesterday brought the economy to a halt in a strike against pension reform and privatisation. The strike, called by the Histadrut, the trade union federation, shut Ben Gurion international airport, ports, railways, banks and government offices as well as electricity, telecommunications and defence industries, and the stock exchange.

The labour court ordered the strikers back to work, but Amir Peretz, head of the Histadrut, declined to call off the strike. Mr Peretz claims Yaakov Neeman, the finance minister, reneged on a pension plan agreed by the former Labour government two weeks before it lost power in the May 1996 election. Mr Neeman says the agreement has no legal standing. *Judy Dempsey, Jerusalem*

■ EGYPT-QATAR DISPUTE

Saudis try to mediate

Saudi Arabia was yesterday attempting to resolve a dispute between Egypt and Qatar, which has accused Egypt of involvement in a coup attempt against the Qatari leader. Hosni Mubarak, the Egyptian president, yesterday flew to the Saudi Arabian capital Riyadh. Qatar had earlier requested Saudi mediation.

Sheikh Hamad bin Khalifa al-Thani, the Qatari leader, was also reported to have travelled to Riyadh yesterday. The diplomat said there were no immediate plans for the two leaders to meet, suggesting a shuttle diplomacy by Saudi officials. Egypt has denied involvement in the attempt in 1996 to reinstate Sheikh Hamad's father Sheikh Khalifa to the throne, following the latter's overthrow by his son in 1995. *Mark Huband, Cairo*

■ TURKMENISTAN

Gas export to Turkey agreed

Royal Dutch/Shell plans to export Turkmenistan's natural gas to Turkey via Iran. Sepurmurat Niyazov, president of Turkmenistan, has asked the company to lead a consortium to build a pipeline to transport the gas, possibly as early as 2000. There are a number of political hurdles before further progress can be made.

In May, Turkmenistan signed a protocol with Turkey and Iran on building the pipeline. Eventually, Turkmenistan envisages pumping 20bn-30bn cubic metres of gas through the line, which would cost $1.6bn-$2bn.

Turkmenistan has been desperate to find alternative export routes for its gas, which it currently exports through Russia. The Russian pipelines are controlled by Russian gas monopoly Gazprom, which has restricted Turkmenistan's access to west European markets.

The route through Iran to Turkey is fraught with difficulties, though. First, US sanctions on Iran make funding the Iranian leg particularly touchy. Second, Gazprom would like to preserve the Turkish gas market for itself, and opposes Turkmenistan's plans to compete. Shell, which two weeks ago signed a strategic partnership with Gazprom, may find itself caught between conflicting interests. In the strategic alliance, Shell and Gazprom had agreed to work together to export Russian gas to Turkey across the Black Sea. *Charles Clover, Kiev*

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Bail-out terms could lead to drastic reorganisation of big conglomerates

Korea Inc may turn to market system

By John Burton in Seoul

The expected conditions laid down by the International Monetary Fund for its $55bn rescue of South Korea may eventually transform the world's 11th largest economy into one based on market principles instead of state directives.

Precise terms of the bail-out will remain unknown until the IMF board of directors approves the accord, but it is thought the IMF has demanded a restructuring of Korea Inc, the close collaboration between big business and government.

That model, once the envy of emerging countries, has become outmoded. Korea has ballooned, with a heavy weight of debts as it became more prosperous. The IMF programme is meant to put it on an austere diet. That could result in a drastic reorganisation of the *chaebol*, the conglomerates that dominate the South Korean economy.

The spendthrift habits of the *chaebol*, encouraged by a government bent on making Korea a global industrial power, has led the nation into its present debt crisis and the need to ask the IMF for aid.

After decades of expansion, the *chaebol* were no longer able to service their huge debts as their industries were hit by price deflation due to excess investment. The collapse of several conglomerates this year caused a crisis among banks with heavy loan exposures to the *chaebol*. An IMF rescue become inevitable as the banks were in danger of being unable to pay their overseas borrowings.

The IMF remedy, if implemented properly, would help free the financial sector from intrusive state control, while forcing the *chaebol* to make investments based on earnings potential rather than market share. The IMF terms are likely to be similar to recommendations urged for years by other international organisations such as the Organisation for Economic Co-operation and Development, but rejected as threatening by Korea's vested interests.

"Korea is one of the last transitional economies to market capitalism," said David Hale, chief global strategist for the Zurich Group.

A wider opening of the debt and equity markets to foreign investors and independence for the central bank would help remove the weight of state intervention wielded by the finance ministry.

Foreign participation in the financial sector, including possible takeover of financial institutions, would introduce more competition and an emphasis on credit analysis now lacking.

The bail-out would promote debt liquidation in an economy with total debts of twice its gross domestic product of $500bn, according to Standard & Poor's, the US credit rating agency.

This will have a severe impact on the *chaebol* as they are forced to operate in a more competitive economy driven by a tighter monetary policy and reduced trade barriers.

A reduction in bank lending will force them to turn to capital markets for financing, subjecting them to investor discipline as corporate transparency improves and family owners yield control to shareholders.

This process will come with a high cost, with rises in unemployment and possible labour unrest. But it will result in a balanced economic structure that will benefit more people as businesses grow at the expense of the conglomerates.

How the IMF is brought into the drama

The importance of the International Monetary Fund has grown with the increasing number of countries needing bail-out packages after recently capital markets turmoil.

The IMF, founded after the second world war as one of the Bretton Woods institutions to ensure stability in the world economy, lends money to member countries with balance of payments problems. By providing short-term assistance the IMF hopes to prevent countries taking more drastic steps, such as restricting trade.

When countries get into that sort of mess, distress calls usually go out to the IMF. In some cases, other countries put pressure on the IMF to take on the role of doctor. It is in their interest to revive the ailing economy – which probably has been the recipient of investment and a market for exports. For instance, in the case of Mexico, the US leaned on the IMF to speed the rescue package.

In the case of Thailand, where Japanese banks hold more than half of total foreign bank lending, Japan clearly had an interest in an IMF package. Now in South Korea – as in Indonesia – Japan and the US are interested parties.

What the IMF does is to inject much-needed foreign exchange into the economy. This helps the country get over the balance payments problem and hopefully brings back some measure of confidence among other lenders.

The ailing country purchases currencies of other countries (usually dollars, sterling, D-Marks or yen) from the IMF with its own currency. When repaying the Fund, the member country has to repurchase its own currency with special drawing rights (a unique artificial currency, which is part of most countries' foreign exchange reserves) or other currencies specified by the Fund, within a specified time.

Loans are usually at 4 per cent interest, plus 0.5 per cent as a service charge and commitment fees. In all, the rates are fixed at just below market rates in keeping with the spirit of the institution.

But the Fund does not part with all this money without strings attached. It wants the borrowing country first to convince the IMF that it will not not misuse the money and that it will reform its economy so that it will be in a position to repay the loan. This conditionality is often unpopular in the country affected so the government often finds it useful to blame the IMF for the pain.

One way of ensuring discipline is to pay the loan in tranches, rather than in one shot. The loan is reeled out as the country makes progress with economic adjustment. Fund officials keep a close tab on the country's economic progress and the way it behaves. Since the Mexico crisis, the IMF has tightened its surveillance procedure and now asks member countries to provide more data. The Fund also posts its own people in these countries.

The IMF package is often provided in conjunction with other lenders – other multilateral agencies (the World Bank or the Asian Development Bank) or "bilateral donors", which are other governments. In both Indonesia and Thailand, the IMF package totalled only 25 per cent of the total pledged by a mix of multilateral agencies and government donors.

Rajrishi Singhal

Tokyo pumps liquidity into bank system

By Gillian Tett in Tokyo

The Bank of Japan yesterday provided Y600bn ($4.7bn) worth of emergency short-term loans to the country's banks in an escalation of its efforts to avert a serious liquidity squeeze.

The intervention reflected fears that weaker banks and brokers could face the type of credit crunch that led last month to the failure of Hokkaido Takushoku, the country's tenth largest commercial bank, and Yamaichi, the fourth largest broker.

The BoJ's initiative followed earlier moves to avert a credit crunch by flooding the money markets with liquidity last week. While the new loans should ease the banks' domestic funding problems, the development came amid signs that the banks face unprecedented problems raising funds in international markets.

The so-called "Japan premium" – or the extra cost Japanese banks have to pay compared with their US and European counterparts – rose to around 116 basis points for three-month eurodollar contracts for weaker banks. Stronger banks are now paying around 106 basis points over the current eurodollar rate of 5.875 per cent.

Such a rise usually occurs each December, because banks want to raise funds for their year-end positions. However, the present surge has taken the rate to record levels – and about twice the size of the previous record levels seen in 1995.

The rise reflects international concerns that other groups could fail, traders said. In autumn the premium was less than 20 basis points.

However, Sei Nakai, deputy head of the ministry of finance's banking bureau yesterday insisted that no more banks – excluding credit co-operatives – would fail "in the foreseeable future". "No bank to my knowledge is insolvent," he said. "If the banks have problems now it is with liquidity, and the Bank of Japan will provide enough funds to support them."

The central bank yesterday offered the loans to the banks under a mechanism known as "article 20" which has been activated as an emergency measure since Yamaichi's collapse. The measure, which may be used again today, allows the central bank to offer short-term loans at the official discount rate in exchange for collateral.

In a move likely to raise the pressure on weaker banks, Moody's, the US credit rating agency, said it was considering downgrading the debt of three regional banks, Ashikaga, Kiyo and Hokuriku. The groups are currently rated at Baa3 for their senior debt. If they fall below this they will be ranked "junk bond" status.

The demotion of Yamaichi's debt to junk bond status last month was a key factor that triggered a liquidity squeeze that caused the broker's failure.

IBCA, another credit rating agency, also said that it had downgraded Long Term Credit Bank's long-term debt from A minus to BBB plus – three notches above junk bond status. The group also downgraded the long term debt of Dai-Ichi Kangyo Bank, Sanwa Bank and Sumitomo Bank from AA minus to A plus.

Indians set for second election in two years

By Mark Nicholson in New Delhi

K.R. Narayanan, India's president, is expected to dissolve parliament and order fresh general elections today as politicians apparently exhausted efforts to replace the deposed United Front government with an alternative coalition.

Mr Narayanan's decision is likely to follow a meeting this morning with I.K. Gujral, who has been acting as caretaker prime minister since the fall of his UF government last Friday.

Mr Gujral last night handed Mr Narayanan a "unanimous" recommendation for elections from the caretaker UF cabinet. Mr Gujral resigned after Congress withdrew support for his minority coalition.

Both main parties appeared resigned to facing India's 600m-strong electorate for the second time in two years. The opposition Bharatiya Janata party, parliament's biggest, urged the president to call early polls. Congress, meanwhile, said it would welcome "any decision" from the president.

The statements seemed to close the door on a week of frantic attempts to manufacture a fresh coalition from the existing parliament.

Dissolution of parliament would come just 18 months after India's last elections provided a fragmented mandate from which the 15-party UF coalition emerged.

Congress, India's oldest party which has ruled the country for all but five years of its independence, sparked the current three-week crisis by threatening to end its parliamentary support unless the UF ejected a Tamil Nadu-based coalition party. The Dravida Munnetra Kazhagam was alleged to have aided the Sri Lankan Tamil Tigers, the assassins of Rajiv Gandhi, former Congress leader. The UF refused.

The resulting three-week political crisis caused jitters in the Bombay stock market and has helped push the rupee to a succession of record lows since early last week. It eased to another against the dollar yesterday, ending at Rs39.32 after Tuesday's close of Rs39.26.

P. Chidambaram, finance minister, said the political uncertainty had "taken a toll" on the rupee.

However, the uncertainty did not derail the successful pricing yesterday of a $358m international share offering by MTNL, the state-owned telephone company.

The timing of India's 12th general election since independence 50 years ago would be decided by M.S. Gill, chief election commissioner responsible for organising the world's biggest poll. He has said elections would be practicable only within 60 days of parliament's dissolution, making February elections most likely.

MTNL issue, International Company News

A message from the general

At the height of the battle for political power in Pakistan over the past few weeks, supporters of Nawaz Sharif, the prime minister, stormed the Supreme Court which was hearing a contempt case against him.

The country's president and the chief justice appealed to the head of the army to protect the court.

General Jehangir Karamat played by the book: he forwarded the requests to the defence ministry, which is formally in charge of military matters and falls under the prime minister's office.

President Farooq Leghari and Justice Sajjad Ali Shah got the message. Days later their challenge to the prime minister crumbled. On Tuesday they quit their posts and Mr Sharif emerged triumphant in the struggle for dominance between the leading institutions of the country's fragile democracy.

To observers of Pakistani politics more accustomed to asking if there will there be a coup, there was more to the general's message than a signal that he was siding with the prime minister.

Some of Gen Karamat's predecessors often sought pretexts to enhance the military's role in politics, at times ignoring the bureaucrats at the defence ministry.

This time the message was: we are prepared to mediate, even to take sides, but not to rule.

"The army chief's role was something of an intervention but it was one that leaves the military without taking responsibility for running the country," says Ghazi Salahuddin, a leading political commentator.

Soldiers watch as Farooq Leghari talks to reporters after his resignation *Reuters*

Many warn, however, that it is too early to argue that there has been a permanent shift by the military from its considerable influence in policy matters.

In recent years, opposition politicians have usually tried to seek some measure of informal support from the military before launching anti-government campaigns. Terms such as a "wink or a nod from the right quarters" in domestic political jargon usually mean just that.

Many observers say that the military's decision to stay neutral while Gen Karamat shuttled between the prime minister and the president, was the decisive factor that resolved the crisis.

"This [resolution of the crisis] did show that the final factor was the military's role," said Maleeha Lodhi, a former ambassador to the US.

Other analysts say that the military's approach is partly driven by international pressures and the country's weak economic outlook. "An outright military takeover anywhere would make Pakistan look like a pariah," said a western diplomat. "Even quiet support by the military for moves against an elected parliament would have been unwelcome in western capitals."

Others say that the military is worried about Pakistan's economic problems. It has had little experience managing the economy, largely because it ruled the country during the days when large amounts of foreign assistance during the cold war helped to meet budget shortfalls.

"The military was swayed to remain neutral because of the economic outlook. They knew that a democratic government had a better chance to lead a recovery," said Ikram Sehgal, a leading commentator.

In October Mr Sharif won International Monetary Fund support for a $1.56bn loan, considered a vital guarantee for new commercial loans to keep the country's finances intact.

The importance of such concerns would not be lost on a military that receives a generous 25 per cent of the national budget – second only to debt servicing.

Farhan Bokhari

NEWS DIGEST

Thais expect debt roll-over

Thailand's central bank said yesterday that $6bn in foreign debt came due this month but that figures from October and November indicated that creditors were likely to roll over most of that amount.

Of the $7bn in foreign debt that came due in October, $6.3bn was rolled over, said the central bank governor, Chaiyawat Wibulswasdi. An additional $5bn came due in November and preliminary indications showed a similar percentage to that of October had been rolled over.

Concerns about the roll-over of of Thailand's $37bn of foreign debt that comes due by next September are two-fold. Authorities say that if a substantial amount is called in, the $17.2bn International Monetary Fund rescue package will be insufficient to keep foreign currency reserves at a sustainable level.

In addition, if corporations must buy dollars to repay their foreign debt there will be added pressure on the exchange rate. Dollar buying by corporations worried about the weakness of the pushed the Thai currency to a new record low yesterday of Bt42.95 to the US dollar before recovering slightly on central bank intervention and news of a deal between South Korea and the IMF.

Ted Bardacke, Bangkok

■ HONG KONG

UK pressed on Vietnamese

China yesterday pressed Britain to resolve the problem of Vietnamese refugees in Hong Kong, raising the dispute for the first time since the territory returned to Chinese sovereignty in July.

"The Chinese side regrets the failure to have a thorough and complete solution to the problem before July 1", said Wang Guisheng, China's chief representative to the Joint Liaison Group (JLG). The JLG, which oversees Hong Kong's transition to mainland sovereignty, was meeting for the first time since the handover.

Mr Wang said Britain had responsibility for relocating the remaining 1,200 Vietnamese refugees because it had allowed its former colony to serve as a port of first asylum. "As long as the question remains unsolved, the British side should bear the responsibility to completely resolve it", said the Chinese official.

Britain's chief representative rejected Beijing's claim. "We recognise that we are no longer the sovereign power and that responsibility has passed to China", said Alan Paul. "We are not walking away from the problem, we are standing ready to help." He added that Britain had taken more than 15,000 refugees. "We have done as much as we can".

The two sides also discussed next year's legislative elections in Hong Kong and the submission to the United Nations of human rights reports on the territory. "We were very pleased that before the meeting, the Chinese government announced it would be submitting reports to the UN", said Mr Paul. "It was a good omen for the meeting."

John Ridding, Hong Kong

■ PHILIPPINE POLITICS

MPs pass tax reform

The Philippine lower house yesterday approved the final portion of a comprehensive tax reform, ending a two-year legislative debâte. The upper house is expected to ratify the package today, providing President Fidel Ramos with a welcome fillip at a time of a worsening economic outlook.

The finance ministry said the reform, designed to revitalise the tax system and provide a dependable flow of revenue as privatisation proceeds tail off, would provide the government with an additional annual revenue of 5.8bn pesos to 7.2bn pesos ($167m to $207m).

Approval by the lower house, the House of Representatives, follows intense wrangling over individual tax exemption levels and represents an acceptance of the more conservative version proposed in the Senate that sets an exemption level of 58,400 pesos ($2,825) for a family of six.

Justin Marozzi, Manila

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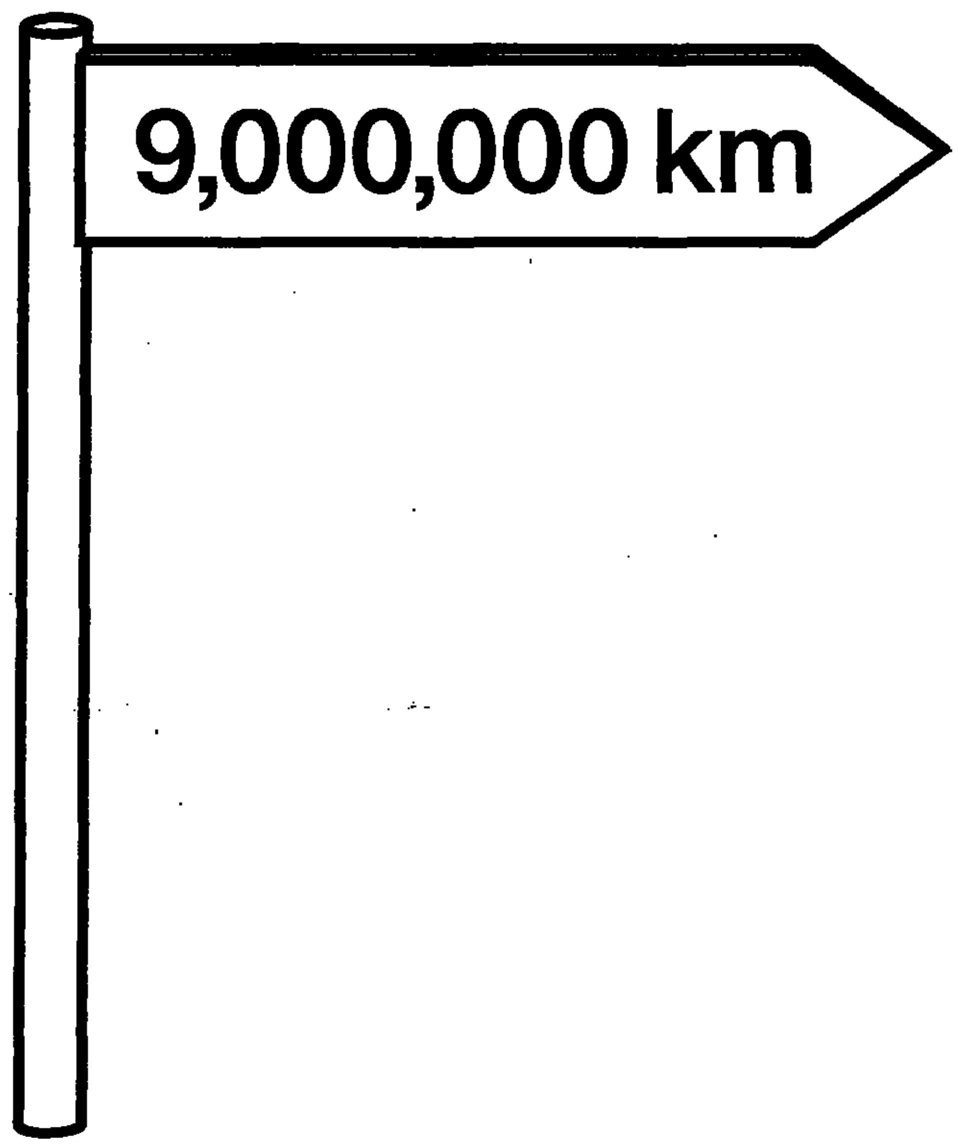
Some people say all that testing of the new Astra is going too far.



However, Opel engineers disagree. They insist that for its debut next spring, the new Astra must excel in every way – in safety, comfort, performance and reliability. 600 pilot models of the new Astra have therefore been tested well over 9 million kilometers – equal to an extraordinary 240 trips around the Earth. From the demanding roadways of Europe, to the blistering asphalt of Arizona. They have passed this rigorous testing with honors. With all of these milestones behind it, signs point to Astra as being a car that you can look forward to.

OPEL

McCANN-ERICKSON

NEWS: THE AMERICAS

Court puts spotlight on Gates

Unpopular Microsoft is accused of breaking terms of an anti-trust settlement

Bill Gates' public appearances are usually carefully choreographed but tomorrow he will be stepping to a different tune. The Microsoft chairman will be in a Washington courtroom, where his company stands accused of anti-trust violations.

For the first time in the more than seven years that Microsoft has been under scrutiny by US competition regulators, the software industry titan may have been caught flat-footed.

Surprisingly unsophisticated in the ways of Washington, Microsoft has been outmanoeuvred by the public relations tactics of consumer lobbyists such as Ralph Nader and its critics in Congress as well as Janet Reno, the attorney-general.

The company is on trial in the court of public opinion for its overwhelming success: its influence over the industry is perceived as too broad, its control of the personal computer software market too absolute, its competitive tactics too harsh, its top executives too rich. But in the courtroom of Judge Thomas Penfield Jackson, the charges against Microsoft are more specific and potentially more damaging.

The US Justice Department has charged that Microsoft has broken the terms of a 1995 anti-trust settlement. According to the complaint, Microsoft has forced PC makers to include Internet Explorer, its internet browser software, with copies of the widely used Windows 95 operating system when the software is factory-installed on new PCs.

Microsoft is "unlawfully taking advantage of its Windows monopoly to protect and extend that monopoly", the Justice Department charged.

Microsoft insists the charges are baseless. The company requires PC manufacturers to install the software because Internet Explorer is an "integrated part" of Windows rather than a separate, bundled product, Mr Gates said. The 1995 antitrust settlement explicitly exempted "integrated products" from a clause covering unlawful bundling, the company pointed out.

Yet even to the ordinary PC user, this argument sounds fishy. Retail computer stores offer Internet Explorer as a separate product. Users of the Apple Macintosh – with its "non-Windows" operating system – can also buy special versions of Internet Explorer, so how can it be part of Windows?

That is irrelevant, Microsoft said, because the complaint is based on alleged violations of the consent decree, which addressed only the terms on which Microsoft licensed software to PC manufacturers.

Tomorrow, Microsoft will ask Judge Jackson to dismiss the case outright. Yet with hundreds of pages of arguments already submitted by both sides, asking for a swift judgment may be a long shot.

Microsoft will hope, however, to narrow the issues of the case to those that relate directly to the consent decree.

The company acknowledged it has "no idea" what will happen in court. Oral arguments are scheduled, but may be brief. The judge could ask both sides to agree on a schedule for further hearings, or he may rule on issues that determine the breadth – and thus significance – of the entire case.

However, Mr Gates' plan to be present in the courtroom demonstrates the importance he attaches to the event. He thinks that if the Justice Department wins it will undermine the ability of Microsoft to maintain its technology leadership.

It is a fundamental principle at Microsoft that Windows should continue to improve with new features and functions that make PCs easier to use, he said. If the Justice Department can block the company from adding an internet browser to Windows, it may also – in the future – prevent the addition of technologies such as speech recognition and gesture recognition now under development in Microsoft's laboratories.

Yet it is not clear that this is the intent of the department's case. Indeed, Joel Klein, head of the department's antitrust division, has hinted that Windows 98, a planned version of the Microsoft operating system that more tightly integrates the functions of the internet browser and desktop operating system, might not raise anti-trust problems.

If so, the department's latest complaint against Microsoft may be just the latest example of the law trying to keep pace with fast-changing technology.

The irony is that if the Justice Department should succeed in putting a crimp on Microsoft, the only beneficiaries may be a clutch of competitors who have so far failed to usurp the company's market leadership. These including Oracle, Sun Microsystems and Netscape Communications.

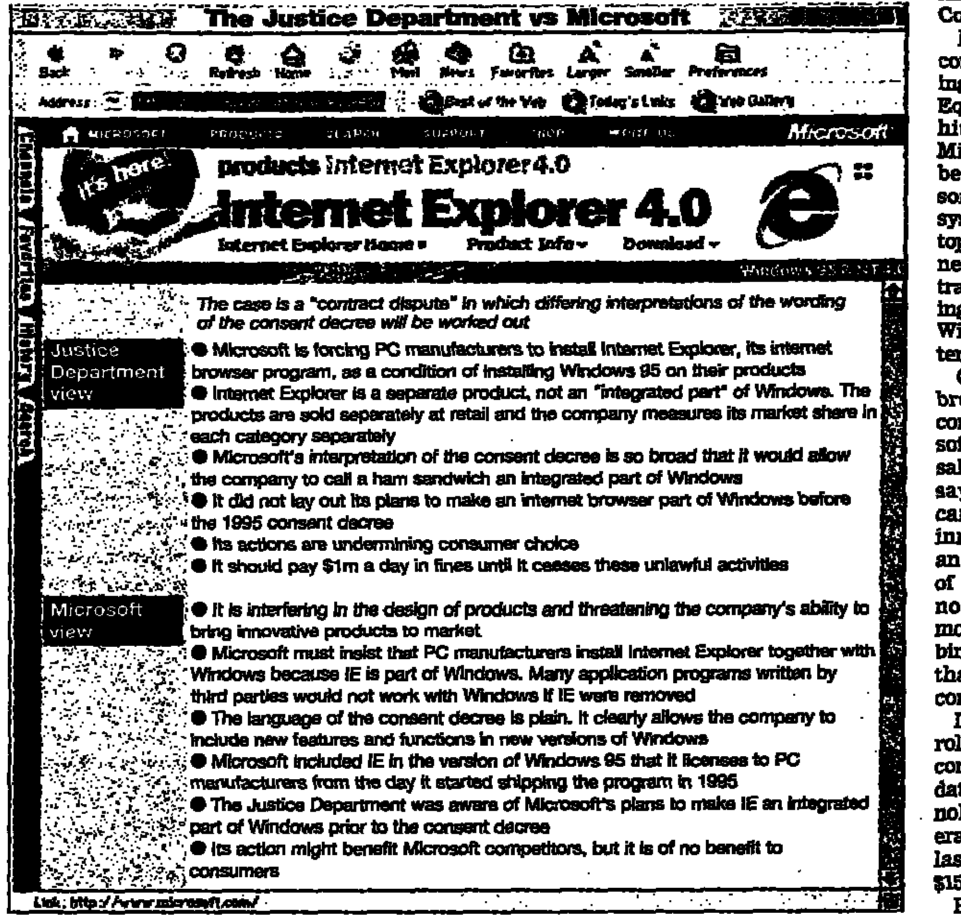
Most of the leading US computer companies including Hewlett-Packard, Digital Equipment and Unisys, have hitched their wagons to Microsoft's ambitions to become a top supplier of software for big computer systems as well as the desktop. Even International Business Machines, Microsoft's traditional nemesis, is offering computers running the Windows NT operating system.

Consumers may gain a broader choice of personal computer software if Microsoft is forced to modify its sales tactics, but who is to say that other companies can produce better, more innovative products? With an annual research budget of nearly $2bn, Microsoft is now spending more than most of its competitors combined on advancing the way that people interact with computers.

It also plays a significant role in the US economy. The company is one of the foundations of the US high technology industry, which generated over $750bn in sales last year and more than $150bn in exports.

Perhaps Microsoft's weakness is that it lacks foreign competitors. Even the hint of a challenge from outside the US would surely have Washington politicians rallying to its aid. As it is, the company must be content with the support of groups such as the Metropolitan King County Council, in its home town of Redmond, Washington, which voted unanimously this week to back the company in its fight.

Louise Kehoe



Canadian air ticket plan irks operators

By Scott Morrison in Toronto

Canada's tour operators and travel agents have hit at proposals by the federal transport regulator that could damage the discount travel sector by banning last-minute sales of low-cost tickets.

Tour operators say they have been told the Canadian Transportation Agency (CTA) intends to start enforcing largely ignored 20-year-old rules. The proposal appears at odds with the recent deregulation of Canada's airline industry and the growth of open skies travel in North America.

The CTA, which regulates economic practices in the airline, rail and marine sectors, said it wanted to fine-tune regulations and enforce them through periodic inspections and complaints, but denied it planned more spot checks. The CTA is also suggesting the introduction of monetary penalties to allow it greater flexibility in dealing with offending charter airlines.

The CTA says it will continue to ban discount charter ticket sales within seven days of departure and impose limits on the number of seats than can be sold on charter flights within 14 days of travel. It will also continue to set minimum charter ticket prices, though travel agents say minimum prices on charter flights have not been enforced for 15 years.

As about 50 per cent of charter tickets are sold within 14 days of departure, enforcing the regulations would hit the country's four top charter carriers, as well as tour operators and as many as a third of travel agents, says Harry Borenstein, president of The Last Minute Club, which specialises in discount tickets.

Analysts said enforcement of the regulations would not be likely to hurt foreign airlines, as they do not serve the same routes as Canadian charter carriers.

NEWS DIGEST

Rubin hails regional reform

Latin America has escaped the worst of the recent turbulence in international financial markets because of its deep economic reforms over the past decade and its progress in strengthening its own financial markets, according to Robert Rubin, US treasury secretary. But much remained to be done to improve supervision and promote greater efficency, he said.

Speaking in Santiago at a meeting of finance ministers from the western hemisphere to discuss issues of financial integration, Mr Rubin said "financial systems that impose discipline on companies" were "essential for sustainable economic growth".

In an indirect reference to the problems in several Asian economies, he said on Tuesday: "Avoidance of government policy direction in bank lending, or of influence by borrowers, is critical to the health of both the banking system and the borrowers." *Imogen Mark, Santiago*

■ BRAZIL

Tax-raising decree approved

The Brazilian Congress has approved a controversial tax-raising decree which forms a central part of the government's recent R$20bn (US$18bn) fiscal package designed to head off further financial market turbulence.

Both the lower house and the senate comfortably approved the decree after the government made substantial changes to its original proposal in order to secure political backing.

The vote was the government's third important victory in Congress in the last fortnight, following approval in the lower house of a civil service reform bill.

As a result of the decree, Brazilians who earn more than R$1,800 a month will pay 10 per cent more income tax, the tax on income from fixed income investments has increased from 15 per cent to 20 per cent and fiscal incentives to companies investing in the north and north-east of the country have been reduced by 25 per cent.

The tax-raising decree was the most controversial of the eight measures in the government's fiscal package which needed approval in Congress. *Geoff Dyer, São Paulo*

■ ECUADOR ELECTION

Vote narrower than expected

Ecuador's Social Christian Party (PSC) will not find it as easy as expected to dominate a national assembly elected on Sunday to reform the constitution, according to initial results from the polling stations.

With results in from eight of the 21 provinces and over 70 per cent of the vote counted in eight others by Tuesday night, the PSC was still set to form the largest bloc when the assembly begins on December 20. However, it was expected yesterday to have nearer 18 seats than the 21-25 seats predicted by pollsters on Sunday.

This will leave the expected alliance of the PSC, centrist Popular Democracy party and the government Liberal Party-Alfarist Radical Front short of a majority in the 70-member assembly. They may seek a further agreement with the centre-left Democratic Left.

As polling results have become clearer since Sunday, PSC leaders have toned down their triumphalist approach and placed more emphasis on the need to find common ground with other assembly groups over the next couple of weeks. *Justine Newsome, Quito*

NEWS: WORLD TRADE

EU gesture to US on 'mad cow' rules

By Neil Buckley in Brussels

The European Union is attempting to head off a trade clash with the US with proposals to modify new rules designed to curb the spread of BSE or "mad cow" disease – only hours before the start of tomorrow's EU-US summit in Washington.

The US has warned that the rules – which ban parts of cattle most at risk of carrying "mad cow" disease, mainly the head and spinal cord, from use "for any purpose" within the EU – could block billions of dollars of US pharmaceuticals and cosmetics exports to Europe.

Most pharmaceuticals and cosmetics contain derivatives of tallow or gelatine, both produced by boiling animal carcases, usually including the banned cattle parts, called "specified risk materials" (SRMs).

The US insists that, since it is free of "mad cow" disease, its slaughterhouses should not have to bear the extra cost of extracting SRMs from carcases.

Washington had threatened retaliatory action or a World Trade Organisation complaint unless the EU modified the rules before they came into force on January 1, 1998.

Proposals to postpone implementation of the new rules were thrown out earlier this week by Brussels officials, worried that this would be seen as backtracking on a highly sensitive consumer safety issue.

Instead, the European Commission yesterday proposed a piecemeal solution, involving temporary exemptions from the rules for certain products. Under the plan:

- Pharmaceutical products approved for marketing after the start of 1998 would not be allowed to use SRMs in their manufacture.
- Pharmaceuticals already approved would be allowed to continue to use SRMs until January 1, 1999, to allow industry time to adapt. Existing products and those manufactured during the transition period could continue to be sold until expiry of their shelf life.
- Certain medicines which use SRMs, and to which there is no satisfactory alternative, would have a longer transition period, until the end of 1999.
- Derivatives of tallow – used in a broad range of pharmaceuticals and cosmetics – would be approved for use even if they were manufactured using SRMs, provided they were heat-treated by one of three approved methods.

US officials were still studying the EU proposals yesterday. But they had indicated that US industry might accept the new rules, provided it was allowed sufficient time to adapt and find new sources of SRM-free ingredients.

Farmers face setback, Page 9

Food labelling

The European Commission has put forward plans to label foodstuffs containing genetically modified maize or soya in an attempt to allay consumer concerns over the products, writes Neil Buckley from Brussels.

But Greenpeace, the environmental group, immediately criticised the definition of products as too narrow.

It said consumers would still have no certainty whether foods they were buying contained genetically modified materials. The Commission was asked by EU food safety experts at the end of July to propose labelling for the two products. Genetically modified maize, developed by Novartis, the life sciences group, to resist the corn-borer pest, and soybeans developed by US chemicals group Monsanto to resist weedkiller, are two of the most controversial biotechnology products, though they have been passed by EU scientists as safe.

The rules were designed to close a loophole caused by the fact that the two products were licensed for sale in the EU last year, before new rules on consumer food labelling, the Novel Foods directive, came into force in May.

Markets harder than 'Stonewall'

Tough US trade negotiator says Asian financial crisis will open up trade, writes **Nancy Dunne**

Charlene Barshefsky has a reputation as a relentless negotiator. Her nickname, Stonewall, was earned during countless face-offs over access to other countries' markets.

One of those trade rows is about to come to a head when the World Trade Organisation rules – perhaps as early as tomorrow – on a complaint, brought on behalf of Kodak, the US film company. Many say the case amounts to a judgment on Japan's economic system.

Yet, after five years of contending that Japan's distribution system is so impenetrable and its restrictions on competition so widespread as to constitute a trade barrier, Ms Barshefsky believes events have overtaken the case.

Asia's financial crisis, she contends, will at last force reform in the country which has been a sparring partner on almost every trade issue from cars and semiconductors to glass and film products.

"The market is telling Japan it cannot delay reform," the US Trade Representative said in an interview this week. "It has to take bold and decisive action."

Ms Barshefsky argues that the outcome of the Kodak case before the WTO dispute settlement panel does not much matter. "Whether we win, or partially win the case, or don't prevail, I think the forces at play in Japan are much stronger now than the contribution of the case."

However, many Japan analysts in the US – having heard numerous Japanese pledges in the past – view this as wishful thinking. "It's bizarre if anyone thinks the Japanese market is going to change, particularly when its economy is doing worse," said one lawyer.

However, Ms Barshefsky contends that the markets' message was reinforced by President Bill Clinton when he met Ryutaro Hashimoto, Japanese prime minister, in Vancouver last week. "He said it was critical that deregulation move at an accelerated pace," said Ms Barshefsky. And the prime minister agreed to deliver a package of reforms by mid-December, looking especially at distribution."

Tokyo has also pledged it will review the controversial Large Scale Retail Store Law, which protects small businesses that are less likely to use foreign products. The law has long symbolised Japan's closed markets.

Since succeeding Mickey Kantor – a close friend of the Clintons – as trade representative, Ms Barshefsky has been credited with important negotiating victories. Last December she helped sew up a global agreement phasing out tariffs on information technology. In February she directed US negotiations in an agreement which swept away barriers in telecommunications services.

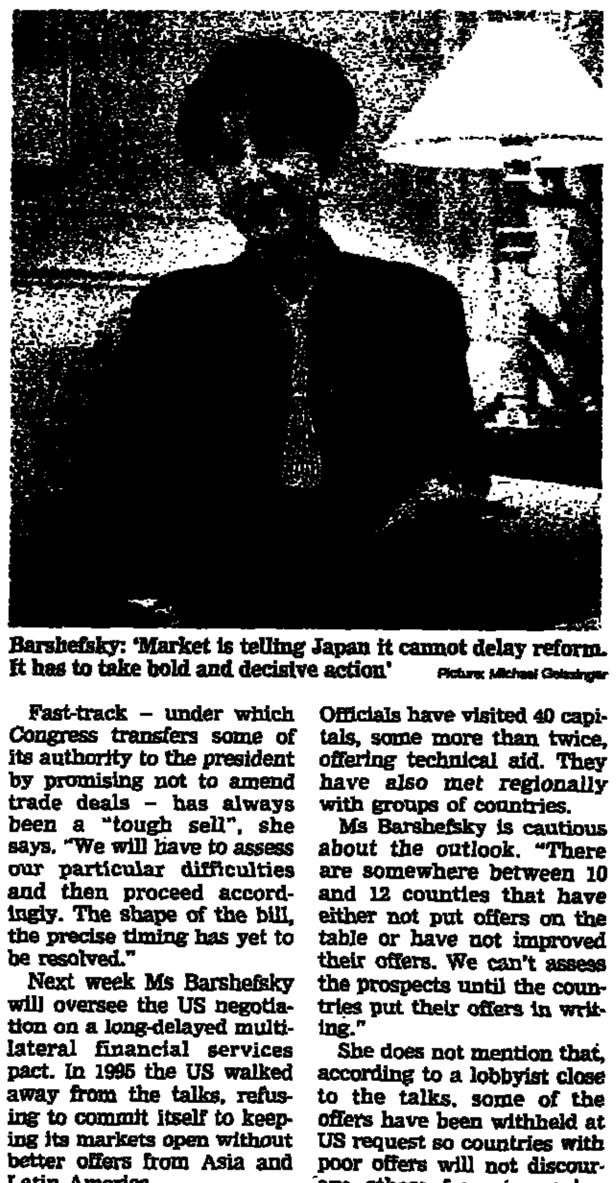
A slight, elegant woman and a respected trade lawyer before moving into government, Ms Barshefsky has mastered her trade brief – whether peering over half-moon reading glasses or arguing that the US will be relegated to the sidelines if she is unable to negotiate new trade agreements.

She has had a tough slog for most of this year, however. After she "consulted" for months with hundreds of congressmen, President Clinton was forced to shelve her version of legislation giving him new "fast-track" trade negotiating authority. Only 40 out of 106 House Democrats could be persuaded to support it.

Ms Barshefsky says she will again consult with the congressional leadership and return early next year to renew the fast-track crusade.

Most observers blame the failure of the fast-track effort on the White House and business groups, saying both did too little too late to mobilise public support behind trade expansion. "For Charlene, it was mission impossible," says one trade lobbyist.

Ms Barshefsky argues a small group of anti-abortion Republican congressmen held the fast-track issue as a "hostage" to their demand that the president reduce international family planning aid. The president, who had already engaged in endless arm-twisting and compromise, drew the line and postponed the vote.



Barshefsky: 'Market is telling Japan it cannot delay reform. It has to take bold and decisive action' Picture: Michael Geissinger

Fast-track – under which Congress transfers some of its authority to the president by promising not to amend trade deals – has always been a "tough sell", she says. "We will have to assess our particular difficulties and then proceed accordingly. The shape of the bill, the precise timing has yet to be resolved."

Next week Ms Barshefsky will oversee the US negotiation on a long-delayed multilateral financial services pact. In 1995 the US walked away from the talks, refusing to commit itself to keeping its markets open without better offers from Asia and Latin America.

This time the administration has poured "substantial resources" into the effort. Officials have visited 40 capitals, some more than twice, offering technical aid. They have also met regionally with groups of countries.

Ms Barshefsky is cautious about the outlook. "There are somewhere between 10 and 12 counties that have either not put offers on the table or have not improved their offers. We can't assess the prospects until the countries put their offers in writing."

She does not mention that, according to a lobbyist close to the talks, some of the offers have been withheld at US request so countries with poor offers will not discourage others from improving their packages. But good lawyers know what to leave in and out of their briefs.

UK contractor halts Bangkok work after payments freeze

By Andrew Taylor in London and Ted Bardacke in Bangkok

United Utilities of the UK has halted work on a sewerage scheme for Bangkok because payments have stopped.

The project is the latest in a series of high-profile infrastructure developments in Thailand and other south-east Asian countries which have been halted or postponed because of the region's financial crisis.

The Bangkok Metropolitan Authority, however, denied that payments to United had been withheld because of the country's financial problems. It blamed a previous contractual dispute for the difficulties which it said must be resolved before payments could resume.

United Utilities, which has made a £90m ($150m) provision to cover potential losses on the contract, has complained about difficulty in getting access to parts of the new sewerage network designed to supply 1m people in central Bangkok.

Access problems and a requirement for additional pipework has severely delayed the contract which was awarded for £150m in 1993 and had been due to be completed last year.

United, which has several large claims outstanding against Thai authorities for additional payments, said its existing provision was sufficient to cover any further losses on the work which was at an advanced stage.

The latest conflict, however, has coincided with a severe cash squeeze on the Thai authorities following the country's currency crisis.

The Thai government in October cancelled a $3.7bn contract with Hopewell Holdings, the Hong Kong-based infrastructure developer, which was building a much needed privately financed mass transit system in the capital.

Other south-east Asian countries have been experiencing similar problems. Indonesia has postponed development of 14 out of 29 proposed new power plants while Malaysia has mothballed several large infrastructure projects, including the controversial Bakun dam.

United Utilities formed last year by the merger of North West Water and North West Electricity, has ceased bidding for construction contracts for water schemes following its problems in Bangkok.

Not all UK companies are pessimistic about the Thai water industry. Thames Water International says its water supply system for the Pathum Thani area on the northern edge of Bangkok should be ready for commissioning early next year.

Thames will sell water to a government agency, the Provincial Waterworks Authority (PWA), which will be responsible for collecting payment from consumers. "We should be all right because the price we sell water to the PWA is less than what the PWA charges its customers," said Pira Intaratood, director of Thames in Thailand.

NEWS: UK

Covent Garden board is accused of inadequate financial planning

MPs call on opera chiefs to quit

By Antony Thorncroft in London

Chris Smith, the chief minister for culture, put himself on a collision course with the management of London's Royal Opera House yesterday as he backed a tough House of Commons report which called for mass resignations.

Gerald Kaufman, a former Labour minister, said that "the current board should dissolve itself and the chief executive should resign with immediate effect". Alternatively, the Royal Opera should go private, relinquishing its annual £15m ($25m) Arts Council grant. He spoke with the unanimous support of the culture, media and sport committee, which he chairs.

The report catalogued a series of errors, ranging from inadequate financial controls which almost led to insolvency in the summer; poor planning for the current 2½ year closure period while Covent Garden, the opera's home, undergoes a £214m refurbishment; and sharp practice during the appointment of Mary Allen as chief executive in May.

The position of Ms Allen – who joined the Royal Opera from the Arts Council, where she was secretary-general – is uncertain. "I entirely reject the criticisms of the committee's report of my conduct at the time of my appointment in May," she said yesterday.

The committee had no complaint of her managerial competence but maintained "her conduct fell below the standards to be expected of the principal officer of a public body". Ms Allen has only been running the Royal Opera for three months and has helped introduce stronger financial controls. She is keen to stay and her trustees might well sacrifice themselves on her behalf.

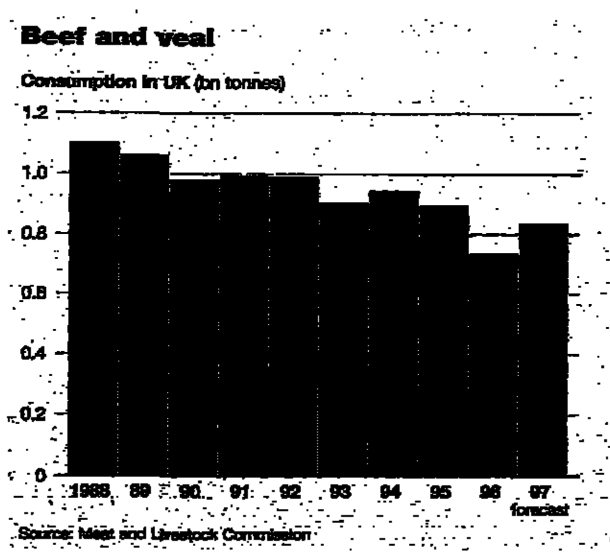
The committee has no direct power but it puts considerable pressure on Mr Smith. He responded diplomatically yesterday. "I share the committee's view that substantial changes are now required, but I hope that you will agree that it is imperative that the nature and timing of any such changes in the direction and management of the Royal Opera House should be such as to achieve the objectives of sustaining the house and companies."

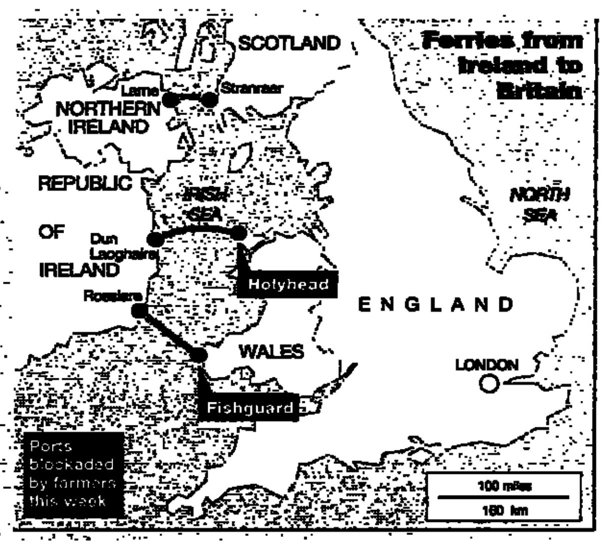
Discussions will take place in the next few days between Mr Smith and Lord Chadlington, chairman of the Royal Opera, who is criticised in the report for leaving the position of finance director vacant for a year. It is believed that Lord Chadlington would be willing to resign if it is considered to be in the best interests of the Royal Opera.

Mr Smith may accept some board resignations while appointing new members. There are only nine trustees: there could be 16. He will be anxious, however, to keep on board Mrs Vivien Duffield, who heads the Royal Opera House Trust, and who has already raised £75m of the £100m needed for the rebuilding.

Bone ban awakens Brussels memories

But the latest beef move is on a different scale to the events of March 1996





By Michael Smith in Brussels

There was a powerful sense of déjà vu in Brussels yesterday as the European Commission and the UK's 14 European Union partners digested the latest British developments on "mad cow disease".

"It's just like last time," said one EU official, referring to March 1996, when the UK announced a probable link between BSE – or mad cow disease – and its human equivalent, Creutzfeldt-Jakob disease.

"First news leaks out and then the government makes a big set-piece to parliament. It is followed by wall-to-wall negative news coverage and consumer confidence takes a huge dive," the official added.

In reality, the effects of yesterday's announcement are on a different scale to those of 21 months ago.

But there could be fall-out for UK hopes of getting the ban on its beef lifted; for a potential trade dispute between the US and the EU over a Brussels ban on the use of specified cattle derivatives; and for the sale by other countries of their beef.

The Commission will ask its veterinary experts to carry out an immediate investigation of the UK committee's findings.

The initial view among officials was that the UK's concerns about bone marrow were at odds with previous findings of EU veterinary experts, who consider marrow to be low on the list of cattle parts most at risk of carrying BSE.

However, if EU scientists were persuaded of the UK arguments, there would be pressure for a bone-in-meat ban to be spread throughout Europe.

Although the UK has by far the highest incidence of BSE among European countries, the disease has now been detected in a majority of EU countries.

This week Luxembourg became the latest country to be affected, albeit with only one case detected. It joined a list consisting of Ireland, France, Portugal, Belgium, the Netherlands and Germany.

● The latest figures show that 22 people had died from nvCJD in the UK by the end of October.

Government policy over BSE and CJD is led by its Spongiform Encephalopathy Advisory Committee, a group of 12 medical, veterinary and other scientific experts chaired by John Pattison, dean of the medical school at University College London.

Seac's latest advice, which led to the bone ban, results from new experiments by government scientists. Previously, infectivity has been found only in the brain, eye, spinal cord and small intestine.

The scientists fed large doses of BSE by mouth to experimental animals selected for their susceptibility to infection.

They found clear evidence of infectivity in nervous tissues called "dorsal root ganglia", which lie within the bones of the spinal column and would be left with the bones when meat is cut off the spine.

Struggling farmers face fresh setback

By Juliette Jowit in Cardiff

Beef prices, which have fallen by half, are only part of the reason for the anger of farmers in Wales, Peredur Hughes, who keeps livestock in the north of the region, said yesterday.

This week has seen blockades at two Welsh ports of trucks arriving with beef from the Republic of Ireland. A consignment of frozen burgers was flung into the sea at Holyhead on Monday.

"During the BSE [mad cow disease] crisis there were other areas of the industry doing well," Mr Hughes said. "For example, I was losing on my beef but gaining something on my lambs – not so much, but it kept our spirits up. This year the price of lamb is down 30 per cent, the price of beef down about 50 per cent and the price of crops down 40 per cent."

Costs imposed by restrictions in the aftermath of the BSE crisis are also pinching margins. Morgan Thomas calculates he has already made losses of £70 ($117) to £80 a head on suckler calves bought only recently.

Yesterday's government announcement of a ban on beef on the bone threatens to throw an even deeper gloom over the already despondent markets, he said. "I don't know whether this is going to bring it all back into people's minds and frighten them again. It's really, really worrying."

David Williams, who farms on the border with England and chairs the National Farmers Union of England and Wales national livestock committee, warns that many farmers are on the verge of bankruptcy. "I have seen accounts up and down the country, they are really horrendous. They are going to cause great difficulty and we are going to see farmers go bankrupt if the situation doesn't improve fairly quickly."

Mr Hughes says a new generation of farmers is in danger of abandoning their family businesses, including his sons, Llyr, 24, and Dewi, 22. "They are seriously considering whether they should come into agriculture. Is there a future there?"

In Holyhead unemployment is running at 12 per cent to 13 per cent, and the cattle market at nearby Llangefni is closing because of a lack of business.

Gas growth curbed to protect coal industry

By Simon Holberton and David Wighton

The government yesterday announced a moratorium on permits for new gas fired power stations in a move designed to improve the medium-term outlook for the UK coal industry.

The decision came amid demands from MPs and the industry for something to be done to avert the potential loss of 5,000 jobs in the deep mine coal industry. A House of Commons trade committee inquiry heard that the coal industry faced a "cliff edge" next spring when long term contracts that sustain it expire.

RJB Mining, Britain's biggest coal mining company, faces a 10m tonne shortfall in orders next year and may be forced to close five to eight pits. Representatives of colliery owners and their unions lobbied MPs to approve a range of measures. They included the cutting of an Anglo-French electricity link that supplies 5 per cent of power needs in England and Wales and the cessation of new gas stations.

But John Battle, energy minister, rejected suggestions that the government should subsidise the industry. "It is difficult to understand how the government could send a cheque to this company," he told MPs. "It's a private company, so why should the government give it cash?"

Later the trade and industry department dismissed suggestions from Richard Budge, RJB's chief executive, that the government could help his company over its difficulties by purchasing 20m tonnes of coal over the next two years. "That's not the business we're in," the department said.

Mr Battle said his worries about gas fired power stations had been prompted by reading an article in the Financial Times last week which reported the concerns of National Grid, the electricity distributor, that gas stations posed a threat to the security of supply in Britain.

Mr Battle said he had "serious new concerns on security and diversity of energy supplies". He said he had requested National Grid and the Energy Advisory Panel to investigate.

Officials from the trade and industry department said the government had been advised it could use this new information to justify its action in the event of a legal challenge.

But the department's own evidence to the committee indicates that the cessation of gas permits would do little to halt coal's decline. The department forecasts a market of only 24m tonnes for power station coal by 2000 – down from 53m tonnes last year.

See Lex

Ford staff urged to accept 8.75%

By Robert Taylor, Employment Editor

Trade union negotiators at Ford's UK offshoot agreed yesterday to recommend acceptance of an 8.75 per cent pay increase spread over the next two years to their 19,500 members. Any agreement is likely to affect bargaining in the rest of manufacturing industry.

Soundings by union officials in factories over the past two weeks found little desire for industrial conflict, although many union officials regret Ford's refusal to reduce the length of the basic working week which, at 39 hours, the longest in the UK auto industry.

The Ford deal will be put to workers for approval and the result will be known on Friday next week. It provides for a 4.5 per cent increase in the basic wage rate this year with a further rise in November 1998 equal to the increase in the retail price index plus 0.5 per cent or 4.25 per cent – whichever is the greater. The present inflation rate is 3.7 per cent.

The Ford offer is in line with the high level of wage deals in the auto industry which are almost all running at above 4 per cent on basic rates. Most companies in the sector are carrying out the second stage of two or three year deals.

Ford's Jaguar offshoot recently agreed a 4.1 per cent improvement in basic pay in the second part of a two year deal.

The latest settlement at BMW's Rover subsidiary was for a 4.5 per cent increase in the first stage of a three year agreement which lasts until 1999.

The only auto company settling below 4 per cent is the Vauxhall unit of General Motors which increased basic rates from September by 3.3 per cent as part of a two year agreement that ends in 1998.

UK NEWS DIGEST

Chinook probe calls rejected

The House of Commons defence committee yesterday rejected appeals to hold an inquiry into the 1994 Chinook helicopter disaster in which 25 senior intelligence experts perished on the Mull of Kintyre in Scotland. The decision was described as "profoundly disappointing" by Menzies Campbell, defence spokesman for the opposition Liberal Democrats and a senior committee member, who has said the RAF's verdict – that the two deceased pilots were guilty of gross negligence - was "unsustainable".

"From the information available to me, I am by no means satisfied the necessary standard of proof to justify this verdict in terms of the RAF's own regulations has been met," said Mr Campbell. "Unfortunately, I was unable to convince the committee to take this view". Mr Campbell predicted the MPs across the Commons would continue to press for a review of the RAF's verdict. "There is a considerable amount of public anxiety about this incident and the committee is ideally placed to investigate," he said.

Denise Gregory-Smith, the mother of a military passenger on the Chinook, said the committee's decision amounted to a "cover-up". She said: "The pilots should not be blamed. No one knows what happened as there was a fire and all the evidence was burned." Bruce George, the committee's chairman, said the issue was "too technical for the committee to handle", and there was not enough time for an inquiry. *Liam Halligan*

■ LOW-COST AIRLINES

EasyJet in talks with Rotterdam

EasyJet, the UK-based low-cost airline, said yesterday it was talking to Rotterdam airport about becoming the carrier's new base in the Netherlands. The discussions follow EasyJet's difficulties competing against KLM of the Netherlands at Amsterdam's Schiphol airport. EasyJet, which is based at London's Luton airport, last month told the European Commission that it was withdrawing a complaint against KLM after the Dutch carrier stopped its alleged anti-competitive behaviour. EasyJet began flying from Luton, to the north of London, to Schiphol last year despite warnings that the London-Amsterdam market was highly competitive. Stelios Haji-Ioannou, EasyJet's chairman, said yesterday that it might be easier to operate at Rotterdam than at Schiphol, where it was difficult to acquire take-off and landing slots. He said that while EasyJet might continue to fly between Luton and Schiphol, Rotterdam looked more attractive as a base for the airline's expansion plans in the Netherlands. Mr Haji-Ioannou is considering flying from the Netherlands to Nice and Barcelona.

Roland Wondolleck, Rotterdam airport's director, said he was keen to attract a low-cost operator. He said the airport, which is owned by Schiphol, had been talking to EasyJet for two years. *Michael Skapinker*

■ DOMESTIC ROUTES

B Midland aims at Manchester

British Midland is expected to announce next week that it intends to begin flying from London's Heathrow airport to the northern city of Manchester, triggering a price war with British Airways on the route. The move would also increase co-operation between British Midland and Lufthansa of Germany, which flies from Manchester to several German cities. British Midland is expected to undercut BA's fares on the London-Manchester route. British Midland refused to comment but said it would make a statement on Monday. *Michael Skapinker*

■ INVESTMENT IN WALES

Battery maker to enlarge plant

Yuasa Corporation of Japan is to enlarge its battery making operation in south Wales. Yuasa's expansion is the fourth at the site since it opened 15 years ago and takes the total workforce to more than 800. The company is the second biggest private sector employer in the area. The news is the second Japanese investment announcement for Wales in two weeks, following the unveiling by Panasonic of a £15m ($25m) research and development site in Cardiff. David Rowe-Beddoe, chairman of the Welsh Development Agency, said the news highlighted the importance of expansion projects, which have accounted for £4bn of the £11bn overseas investment in the region since 1983. *Juliette Jowit, Cardiff*

■ SOCCER

Honorary knighthood for Pele

Pele, the Brazilian soccer star who was recently voted the greatest player of all time and is now his country's sports minister, yesterday received an honorary knighthood in London from Queen Elizabeth. He emerged from Buckingham Palace wearing the cross and star of an honorary Knight Commander of the British Empire and said: "This makes me feel very, very happy; I thank the British people for their trust in me and for believing in my work. I will continue to work hard for sport in society." Pele is in Britain with his country's president, Fernando Henrique Cardoso, who is on a state visit. "The British people, as always, have shown the importance of sport and of Pele – he is ranked number one," said the president.

■ INSURANCE

Trade associations plan merger

Two London insurance market trade associations said yesterday they planned to merge. Lirma, which represents more than 100 non-marine insurers and reinsurers, and the Institute of London Underwriters, which comprises marine and aviation insurance companies, said a merger would enable them to represent better the interests of their members and enable them to cut running costs. Members will meet to approve the merger plans later this month. *Christopher Adams*

EU accord on tobacco adverts expected today

By Michael Smith in Brussels

European Union nations are expected today to reach agreement on banning tobacco advertising in a deal which is likely to allow sponsorship of Formula One motor racing and other "world level activities" to continue for at least seven years.

Although Germany, Greece, Austria and Denmark were last night lining up either to oppose the ban or withhold support for it, other nations – including the UK – were increasingly confident that the proposals could be adopted after eight years of wrangling.

"The odds of the directive going through are pretty good," said one diplomat. The European Commission – the EU's executive, which is normally cautious on making predictions ahead of member state meetings – said that there was a reasonable chance of achieving a "qualified majority".

But with three substantive issues to be resolve by a meeting of the 15 health ministers today, there was still a possibility of an upset. Mr Padraig Flynn, EU health commissioner, has warned that he may withdraw the directive proposing the ban if a deal is not reached today.

There is likely to be heated debate about the time which Britain and other countries can exempt sports from the sponsorship ban. Mr Flynn has indicated he would accept a seven-year gap between the directive's full implementation and exemption being withdrawn. This could be opposed by countries including Finland, France, Portugal and Italy, which already have bans.

There will also be controversy about restrictions on companies using logos associated with tobacco products on other products. Some states want companies who market a range of products including tobacco be allowed more freedom to use their logos.

Under the proposed directive, member states will be able to continue existing sponsorship of "world level" events for a period to be defined. But the sponsorship money will have to decrease, as will the visibility of advertising at the events. Countries will decide themselves what constitutes a world event.

The Commission says the ban is justified because it is part of its plan to complete plans for a single market, and EU treaties make provision for health protection.

Final adoption of the directive is unlikely before the middle of next year and could take much longer.

Standards board alters rules on accounting for goodwill

By Jim Kelly, Accountancy Correspondent

The managements of companies that pay too much to acquire other businesses will be more accountable to shareholders thanks to new mandatory rules published today by the UK's financial reporting watchdog.

Sir David Tweedie, head of the Accounting Standards Board, has decided to end two decades of debate over how to account for goodwill – the difference between the price of a company and the sum of its assets.

Around 95 per cent of UK companies currently write off goodwill to reserves. They can capitalise goodwill on the balance sheet but they have to amortise it over a set period – which depresses future reported earnings.

In future they will have to capitalise and amortise goodwill bringing the UK in line with the rest of the world. Theoretically this should make no difference to the share price, as future cash-flows are not affected. "Goodwill will be shown alongside a company's assets to reflect the fact that it is part of the cost of buying a business – a cost for which management remains accountable," said Sir David.

Roger Davis, head of auditing at Coopers & Lybrand, said: "There has been a tendency towards overpayment over the years. This will make people think a little harder about the prices they pay in acquisitions."

The board's proposals – which mirror a draft published last year – will stop companies boosting returns by writing off goodwill but reaping the benefits of added earnings.

Steve Cooper, accounting analyst at UBS, said that as a result some perfectly sound acquisitions would be earnings dilutive – at least in the early years. "Some acquisitions may not happen as a result – and managements will have to find ways of justifying purchases in other ways," he said.

Companies can escape enforced amortisation if they can show the goodwill has not wasted away. They would do this by using an "impairment test" designed to predict future cashflows from a brand, publishing title, franchise or other element of goodwill.

The novelty of the impairment test has been taken up by international standard setters. Today Dennis Beresford, former chairman of the US standard setting board, will call on the US to follow the proposals and take a step towards global harmonisation.

The UK standards board's decision to go ahead with the new goodwill rules was not unanimous. Ray Hinton, a partner at Arthur Andersen and one of the 10 board members, said he could not agree with the standard.

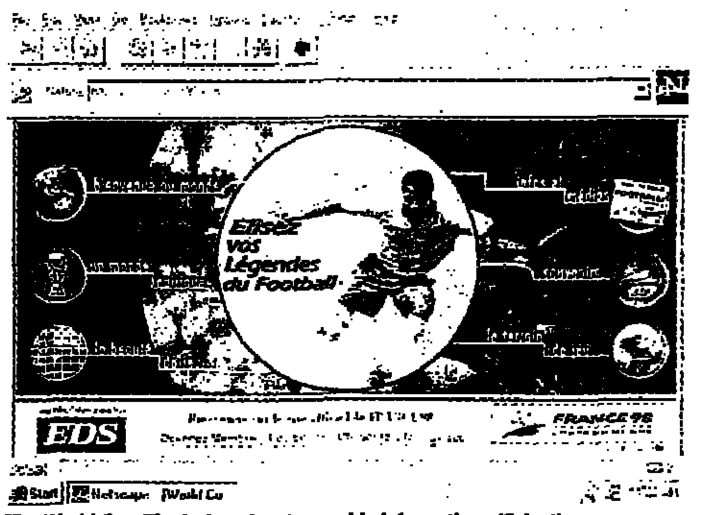
"You are adding to the balance sheets of corporate Britain billions of pounds that users and a sophisticated business community have always regarded with enormous scepticism," he said.

See Lex

TECHNOLOGY

Stephen McGookin looks at the logistical challenge of the world's biggest sports event

On side for soccer IT



The World Cup IT mission aims to provide information efficiently

In football, it is often said that the best referee is the one the fans never notice. Gerard Gouillou and his colleagues at EDS, the US information services group, have been bearing that in mind while building the information technology backbone for what they hope proves to be a fault-free World Cup tournament next year.

"We want to help France share the beauty of the game with the world," says Mr Gouillou.

As this evening's draw in Marseilles emphasises, the logistical challenge of organising the world's biggest sporting event is a considerable one. Regardless of how carefully planned and tested the infrastructure is, things can still go wrong, as at last year's Olympic Games, when IBM had to overcome initial difficulties with its online results network.

From the moment the first game kicks off on June 10 1998, the World Cup finals will last 33 days, with 37bn people worldwide expected to watch on television. The 1994 tournament in the US attracted 31.7bn viewers, while the Atlanta Olympics drew an audience of about 20bn.

On the ground, 2.5m spectators will attend the 64 matches featuring 32 teams at 10 venues, along with 10,000 accredited journalists and broadcasters. They will be marshalled by 12,000 volunteers and 550 permanent employees. In all, 50,000 accreditations will have to be organised, as Mr Gouillou says, "to allow people to go only where they are entitled to go".

The job of bringing together all the elements in the strategy falls to Phillipe Verveer, the organising committee's IT director. "The greatest challenge is to be ready on time," he says. "Everyone knows when the opening game will be, and there's no possibility of any move. Also, everything has to work perfectly from the first day."

Installing and implementing the hardware – about 12,000 workstations and 100 servers across 100 local area networks – will have to be done within a few weeks from May, when the stadiums are finally ready.

When the tournament organising committee was set up in December 1993, Mr Verveer was the first departmental head appointed, indicating the importance laid on getting the IT provision right. In turn, Mr Verveer emphasises the need to choose the right partners. EDS and the other IT partners – Hewlett-Packard, Sybase and France Telecom – all have experience of big events, and they had the opportunity for testing during a dry run last summer – the *Le Tournoi* contest between England, France, Brazil and Italy.

> **'If I am causing trouble, I can be easily identified and banned from any other games'**

Mr Verveer describes the IT mission as dedicated to the efficient management of information, not just during the games themselves, but in the long preparation stage as countries qualify to go to France.

The official web site *www.france98.com* has been providing a running account of the tournament at each stage, while World Cup Online, the main content engine, will drive all the public and press information during the finals.

Sybase development tools using its adaptive component client/server architecture will be used in all elements of the tournament planning, as well as running all the standard business systems like finance and accounting associated with an undertaking of this size.

For the visiting press, a first will be the availability of indexed video through the World Cup Online intranet, allowing users to request clips indexed by player, team or incident – such as goals, penalties or red cards.

Ticket reservation sales began in France in May 1996, partly using the national Minitel system. Until this evening's draw, though, it was not known which teams would be playing in each game at each venue, so Mr Verveer says he has been selling "virtual tickets for virtual games". "In January and February next year we will start to convert reservations into actual tickets." Football authorities in each qualifying country will also be able to start selling their tickets through official tour operators.

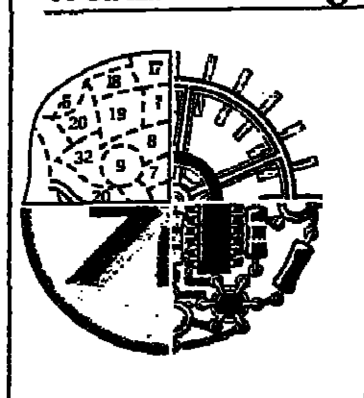
A 3D view of the pitch from each numbered seat can be called up from the stadium database; from a security point of view, the organisers should be able to know who is occupying each seat or group of seats. "If I am causing trouble, I can be easily identified and banned from any other games," says Mr Gouillou.

He points out that the whole approach is a "24/7" – 24 hours a day, seven days a week – operation, with extensive back-up and disaster recovery plans.

Mr Verveer, meanwhile, admits he works for an organisation that has "no past and no future. We will cease to exist when the books are closed after the final game," he says.

When that happens, he is confident it will not just be the 11 players parading the trophy who are a winning team.

Worth Watching • Vanessa Houlder



Personality key to heart disease

Evidence has emerged supporting the controversial theory that "type A" personalities – competitive, impatient and hostile – have an increased risk of heartattacks.

A study published this week in the American Heart Association's journal Circulation provides the first big evidence of a link between levels of mental stress and the blood vessel blockages that trigger heart attacks and strokes.

The research on 901 Finnish men showed that the men whose blood pressure rose most when they performed difficult cognitive and memory tests also had the thickest blockages in the arteries that feed blood to the brain. The association was strongest among men under 55 years old.

More research is needed to prove that mental stress causes blood vessel blockages and, if so, to uncover the mechanism. Frequent bouts of high blood pressure during mental stress could damage the vessels' walls or release hormones that help build up blockages.

American Heart Association: tel 2147061173; e-mail wymetter@amhrt.org

Quick decay for plastic bags

The search for the perfect biodegradable plastic bag has met several obstacles. Environmental groups favour recycling and re-use of bags rather than the use of degradable plastics, which tend not to decay quickly in the dry, light-starved recesses of landfills. Although some degradable plastics perform well, they are too expensive for many applications.

The maker of a new biodegradable plastic bag says it has overcome these problems. Symphony Environmental has developed a degradable refuse sack which takes two to five years to disappear; less if subjected to heat. When it degrades, it produces heat and carbon dioxide or carbon monoxide. The bags cost the same as non-degradable bags.

Symphony Environmental: UK, tel (0)181 2075900; fax (0)181 2075960

Cheaper complex molecules

Complex molecules that play important roles in medicine and industry are often expensive to make – costing up to £1,000 per gramme. A chemist at the University of Warwick has developed a technique for making complex structures that reduces costs to about £30 per kilogram.

Traditionally, complex molecules are put together using chemical building blocks, which are synthesised from expensive starting materials. The Warwick chemists have found a way of using metal ions to assemble small organic building blocks into larger molecules. The techniques can be used to design advanced polymers, which could be used for everything from contact lenses to drug capsules.

University of Warwick: UK, tel (0)1203 524107; e-mail m.j.hannon@warwick.ac.uk

Ultra violet rays made harmless

Ultra violet light can cause skin cancer if people are exposed to it for long periods. German researchers have developed a polymer coating that absorbs ultra violet rays and turn them into visible light.

The scientists at the Fraunhofer Institute for Applied Polymer Research found that the polymer coatings, which are transparent in visible light, can be applied to glass. If they are used to coat halogen bulbs, they remove the ultra-violet rays and intensify the colour and brightness. They could also be used to coat greenhouses.

Fraunhofer Institute for Applied Polymer Research: Germany, tel 332846332; fax 332846317

Bio Avenir's triumph of fraternité

France's Bio Avenir, an unusual research partnership between private and public sectors, has drawn to a formal close with a large scientific conference in Paris.

Participants from both sides say the FFr1.6bn (£160m) spent on Bio Avenir over five years has produced excellent returns. The measurable output includes 172 patents and 528 scientific publications right across the life sciences.

Equally important are the links forged between industrial and academic laboratories that had previously been deeply suspicious of each other. More than 500 scientists took part and 200 PhD students were trained through Bio Avenir.

What makes Bio Avenir unusual for a national collaborative programme is that France's universities and the whole panoply of state-funded research bodies (Centre National de la Research Scientifique, Institut National de la Recherche Agronomique, Institut National de la Santé et de la Recherche Médicale and others) collaborated with one company: Rhône-Poulenc.

Rhône-Poulenc provided FFr1bn for Bio Avenir, while the French government contributed FFr610m.

"The results were far beyond our expectations," Jean-René Fourtou, chief executive of Rhône-Poulenc told the conference. "Although the formal programme is coming to an end, we should all strive to allocate resources to continue the work of Bio Avenir. It is important for the government to continue to serve as a catalyst, even if it cannot contribute at the same level as before."

But Claude Allègre, France's research minister, replied uncompromisingly: "We do not intend to finance research by big companies. They should do that themselves."

Instead, the government's priority is to stimulate small, entrepreneurial biotechnology companies of the sort that are very common in the US but rare in France. "To us, the biotechnology sector is an absolute priority. We want to support it," Mr Allègre said.

Rhône-Poulenc too plans to do more to stimulate biotech entrepreneurs, said Philippe Desmarescaux, group president. "We shall give space to start-up companies. We shall host them for their incubation period, sharing their risks and making our equipment and laboratories available. Then they will have to go their own way."

Meanwhile, Rhône-Poulenc is busily exploiting the rich results of Bio Avenir to develop its own products and processes. For example:

- In human health, the programme provided the company with the technology it needed to set up RPR Gencell, a collaboration in gene therapy with 19 external laboratories. Their work on the p53 cancer gene is beginning phase II clinical trials in the US. Other projects, which have not yet reached the clinic, include gene therapy for cardiovascular disease (to prevent arteries clogging up) and for diseases of the central nervous system such as Parkinson's (to prevent degeneration of brain cells).
- In food and agriculture, there have been results in two directions: new plant protection chemicals (fungicides and herbicides) and genetically engineered crops that protect themselves against pests and disease. Bio Avenir has also made "artificial seeds" from embryonic plants.
- In chemistry, the programme has used "combinatorial chemistry" to create a great diversity of new molecules for use throughout Rhône-Poulenc's research. And biocatalysis – using enzymes to speed up chemical reactions – is opening up possibilities for clean recycling of plastics.

Clive Cookson

Cinema/Nigel Andrews

Multi-story drama falls on deaf ears

COP LAND
James Mangold

PARADISE ROAD
Bruce Beresford

THE BORROWERS
Pete Hewitt

MARIUS AND JEANNETTE
Robert Guédiguian

THIS WORLD, THEN THE FIREWORKS
Michael Oblowitz

IT'S A WONDERFUL LIFE
Frank Capra

Falling stars will do anything to get back into the galaxy: they may even shed the things that made them stars in the first place. Ever since John Travolta came back by playing a greasy overweight gangster in *Pulp Fiction* – shrugging off his oblivion years by shrugging off the even earlier years of scream-inducing sex appeal – the Unlikely Character Role has been deemed a key to Hollywood resurrection.

In *Cop Land* Sylvester Stallone, formerly the twin scourge of South-East Asia *(Rambo)* and boxers with attitude *(Rocky)*, plays a paunchy New Jersey sheriff with a hearing problem. In boyhood he went partially deaf after rescuing a drowning girl from a river: he still pines for her (Annabella Sciorra) now that she is the grown-up wife of a cop in a town seething with them. For Garrison, N.J., ruled by Sly, is where the off-duty NYPD "make their homes" across the river.

The actor's own hearing problem, however, may be that he listened to people pitching this script. "An offbeat role will revive your career, Sly" they no doubt shouted. And "Look at the co-stars we can round up for you!" Harvey Keitel as the sleazy officer hiding a runaway policeman nephew thought to have committed suicide after killing two innocent blacks in a car chase. Ray Liotta as Stallone's best friend, a burnt-out cop with a cocaine habit. And Robert De Niro as, er, Robert De Niro: the Method master guesting, or ghosting, through with cocked head and Little Italy cadence as the snoop from Internal Affairs.

Writer-director James Mangold, who made a small character study go a long way in *Heavy*, picks the opposite route here. He wrestles Laocoon-style with an infestation of characters and subplots. There are love, crime, corruption; fires, chases, drownings. And there is the inner complexity of Stallone's sheriff: a sort of conflicted Woyzeckian lumpen-hero. Well, we and Mangold would *like* him to be that. With this actor, though, spiritual crisis is expressed mainly by looking more doleful than usual, under his umbrella eyelashes, while croaking out the dese-dem-dose dialogue.

The film wilts into sub-*High Noon* fatuity after a good start. Mangold sets up his multi-story drama so skilfully – cross-cutting New York and New Jersey to point the contrast between Hell's kitchen and Heaven's retirement lounge (with beer and drugs) – that we quickly identify the principals and their problems. Then we move too fast into the play-offs and payoffs, which manage to be at once too Byzantine and too predictable. We soon twig that this will be the familiar tale of trickle-down corruption in city governance.

Bizarrely, while Keitel and Co. act their hats off in a diminishing cause, we end up warming more to Stallone's dozy, slowcoach, not-quite-with-it style. It is as if he belatedly determined – or his unconscious determined for him – that he would not pant hard to catch this particular bus. Or perhaps, trading conceits, the tortoise opted to watch the Stanislavskian hares run ragged while knowing intuitively that the camera would stay on him. For wasn't iconic immobility Sly's secret all along?


Iconic immobility: Sylvester Stallone as the sheriff in James Mangold's 'Cop Land'

★

Paradise Road is *Tenko* meets *A Town Like Alice*. Writer-director Bruce Beresford tells us that women PoWs had a bad time too in the war, especially if untimely ripped from Raffles Hotel in the middle of a Gertrude Lawrence lookalike's rendition of "Mad about the boy." Bombed from Singapore, their escape boat then sinks off Sumatra, causing them to accept the Japanese offer of bed and board.

"Hello, I'm Rosemary Leighton-Jones, we met at the tennis club," says one deb to another. And soon the camp fills up with a British-accented Glenn Close, Pauline Collins and others, plus Frances "I haf a Cherman pussport" McDormand as a Hitler-fleeing Jewish dentist. McDormand won the 1997 Best Actress Oscar for *Fargo*: can these statuettes be recalled for ensuing performances?

Unlike *Cop Land*, though, this film gets better not worse. Shaken by an early scene of gruesome immolation, the audience is then stirred by the emotional commitment Close and company bring to potentially maudlin (though truth-based) plot developments: like the all-voice camp orchestra which even the Japs lay down their sabres to listen to. Earnest, sombre, impassioned, the film ends up a small triumph of mind and feeling over what might have been unforgiving matter.

In *The Borrowers*, tiny people living under the floorboards attack John Goodman. When the evil property tycoon evicts a family from their home, a parallel family of homunculi battle on their behalf. Drawn from the children's novels by Mary Norton, the finger-sized folk climb fridges, swing on ropes of dental floss, take elevator rides on power tape-measures, and generally behave like refugees from *The Incredible Shrinking Man*.

Director Peter Hewitt, schooled in mad cinema for children from his debut feature *Bill And Ted's Bogus Journey*, boasts unhurried comic timing. Goodman's villain is squeezed for slow-burn humour and wonderful double or triple takes. (Slow comedy is almost a lost art in the age of MTV and jitterbug attention spans). And the special effects team perform Gulliverish miracles of scale trickery. A Christmas treat for the tots.

In the French film *Marius And Jeannette*, all the world is a lovable commune. The two life-scarred Marseilles-dwellers of the title – she a single mother (Ariane Ascaride), he a cement quarry nightwatchman (Gérard Meylan) – find a late love. Urged on by wine-bibbing, politics-chatting friends, and by children unpolluted by jealousy, they turn the back streets into a lovenest worthy of Pagnol.

Or it would be if Pagnol had written it. Film-maker Robert Guédiguian is a sentimentalist who pretends not to be. The film's folksy, ersatz naturalism is pamphleteering with invisible ink. The plot lulls us with cuteness while the barely visible, but actually deafening, writing says: poverty, togetherness and work-shy socialism can save the world. Luddite chic, masquerading as a love story.

The week's last two films are a one-sided battle. Michael Oblowitz's *This World, Then The Fireworks* is monster of badness: a late belch from the drunken haze of the *film noir* revival. Adapting a Jim Thompson story, Oblowitz gives us hardboiled hero Billy Zane triangulating between incestuous sister (Gina Gershon) and whorish blonde (Sheryl Lee). But characters, as such, are obliterated by empty visual brainstorming. Filters, shadows, tilted angles: style screams loud and long for content.

Frank Capra's *It's A Wonderful Life*, is 50 years old but still has all its moving parts. Indeed it moves parts of the spectator that newer films cannot reach. My handkerchief was in use from the moment James Stewart stammered out his first aria of Yuletide despair. After that it is Clarence the angel, life reborn, and schmaltz somehow transfigured by wit, joy and character.

Theatre

A nose with panache

On a wave of admiring reviews, the Royal Shakespeare Company's *Cyrano de Bergerac* has come up from Stratford to the Lyric Theatre, Shaftesbury Avenue. As directed, designed – just stage-high slatted walls, but versatile – and lit by Gregory Doran, Robert Jones and Howard Harrison, it works a treat: warmly recommended. The essential thing is of course a charismatic performance in the title role, which Anthony Sher provides in full measure, with a magnificent nose too.

After the Stratford opening, other critics besides Alastair Macaulay on this page remarked an air of chilly artifice about Sher's Cyrano. But he has inhabited the role for a couple of months now, and I think the mechanism and the character have melded together: this is a Pinocchio (Sher is pint-sized) with a vulnerable heart. If the death scene is only moderately affecting, his throttled, lovelorn anguishes in Act 4 could move one to tears.

Any Cyrano, after all, *has* to be brilliantly contrived; it lies in the nature of the role. In English the challenge is especially severe – for the heroes of English drama do not pelt us with florid *gasconnades*, whereas the French treasure Cyrano as a Gallic archetype, an heroic cartoon.

Alexandra Gilbreath's Roxane has been rightly praised for her sparky vitality, which does wonders for the character – a far cry from the usual blonde airhead – and for the play. Her vocal range needs broadening, though (slightly nasal, with some dodgy vowels that make her sound *déclassée*); and for the last act, the passage of 15 years seems to have left no mark upon her. Her dim swain Christian is beautifully played by Raymond Coulthard: imagine James Fleet's woebegone William in Channel 4's *Underworld* about 15 years younger, and cuter.

It is perverse to have everyone call him "Christiane", which is neither English nor French: Frenchmen are *never* called Christiane. That isn't the fault of Anthony Burgess's translation, of course, but his free version has a few problems of its own.

Much of it is modern-colloquial, and therefore more actor-friendly than a more literal translation of the fusty text. At its best, the lines have the breezy-but-pithy feel of a good Broadway lyric. When Burgess's rhyming couplets have to stand in for Rostand's grandiose poesy, however, the change of tone is jarring: the word-play often laborious, the fanciful roulades distinctly flat. It does credit to the entire cast that they manage to fling out their failed epigrams as if they were the real thing.

These quibbles should not deter you from going to see the *Cyrano* of the decade. It is not Rostand's language that has kept the play alive, but his superbly theatrical conception. Doran and his teeming RSC cast have revived all its flavour, with Cyrano's own famous *panache*.

David Murray

Lyric Theatre, Shaftesbury Avenue, London W1 (0171-494 5045).


Engagingly roguish comedy: Nitzan Sharron, Nicholas Woodeson and Adrian Edmondson in 'Bazaar' Alastair Muir

Theatre/Sarah Hemming

Quirky look at a mad, bad world

David Planell's *Bazaar* arrives at the Royal Court Upstairs, the sole representative of Spain at the theatre's New European Writers Season. While one can't help thinking that there must be more taxing work going on somewhere in Spain, one also cannot help but enjoy Planell's engagingly roguish comedy that deftly picks away at the problem of racial tension in Madrid.

Planell comes up with a delightful scenario. The play is set entirely in the storeroom of Hassan's shop, where piles of video cameras and hairdryers vie for supremacy. Here, Anton, the local no-good boyo, is nursing a broken wrist and trying to entice Hassan's nephew, Rashid, newly arrived from Morocco, into a dodgy insurance scam.

While Rashid demurs, his uncle arrives, thrilled with the news that his work is to appear "on telly". It transpires that he just happened to be trying out a new video camera when Anton had the spectacular accident that resulted in his broken wrist. Spotting an opportunity, Hassan sent his video off to the Spanish equivalent of *You've Been Framed*, and now offers to split the takings with the unwitting and unfortunate star of the spectacle.

Things take a twist, however, when the television people change their minds. The quality of the film is so good, they complain, that the accident looks set up; they would like Hassan to set the accident up again and film it more fuzzily so that it looks more real. Thus Planell creates a wonderful picture of a mad world where appearance is everything. But while he cannily lays into the more tawdry aspects of contemporary Spanish life and culture, he also exposes the problems of assimilation for Moroccan immigrants. Hassan seems to be making a success of his life, but as he becomes increasingly dogged about remaking the video, the real strains upon him begin to emerge.

It is at this point that the play loses something. Planell steps up the comedy and darkens the subject matter, but he doesn't convince us of Hassan's motive. Meanwhile Roxana Silbert's direction, which has otherwise managed to make the situation both plausible and very funny, doesn't keep the pace going sufficiently as events become increasingly absurd. The play appears to sag suddenly about two-thirds of the way through, and it never quite recovers.

Otherwise, however, this is a witty and sympathetic piece, given a crackling translation by John Clifford that manages to live up to what is clearly a richly colloquial original: it even takes on the challenge of Anton's highly inventive range of expletives. The acting too is most enjoyable, with Adrian Edmondson, as Anton, displaying to the full his talent to look unwashed; and though his performance would benefit from less head-waggling, he manages to appear pathetic as well as funny. Nicholas Woodeson is brittle, but touching, as Hassan and Nitzan Sharron, as Rashid, carries off the difficult task of playing a decent character without becoming a void on the stage. Planell has something to say and a quirky voice with which to say it; it will be interesting to see which way he goes next.

Continues at the Royal Court Upstairs, London WC2 (0171-565-5000).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 4, 7

■ BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Die Zauberflöte: by Mozart. Staged by Günter Krämer, with sets and costumes by Andreas Reinhardt; Dec 7, 9

■ BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Turandot: by Puccini. Revival conducted by Daniele Gatti in a staging by Hugo de Ana; Dec 4, 6, 7, 9

■ CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: world premiere of Anthony Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Dec 5, 8

■ EDINBURGH

EXHIBITIONS
Scottish National Gallery of Modern Art
Tel: 44-131-624 6200
Correspondences: transferring from the Martin-Gropius-Bau, Berlin, a selection of works by six young Scottish and six young German artists. Organised as an exchange, the display includes painting, sculpture, video and light projections; to Feb 1

Scottish National Portrait Gallery
Tel: 44-131-624 6200
Portraits of Excellence: a series of photographs of distinguished academics at the University of Edinburgh, commissioned according to an 18th century University tradition; opens tomorrow

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Sarah Chang: recital by the violinist of a programme including works by Strauss and Brahms. With pianist Charles Abramovic; Dec 7

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
The Magic Flute: by Mozart. Nicholas Hytner's production, revived by David Ritch and conducted by Christopher Moulds; Dec 4, 6

THEATRE
Riverside Studios
Tel: 44-181-741 2255
Oh Les Beaux Jours: by Samuel Beckett (1961). Peter Brook directs Beckett's French language version of Happy Days; Dec 4, 5, 6

■ LOS ANGELES

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Countess Maritza: by Kálmán. Premiered in Santa Fe this summer, Linda Brovsky's production is conducted by John Crosby; Dec 5, 7

■ MADRID

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-1-435 4833
Joaquim Mir, 1873-1940: A Life's Journey. Retrospective of around 140 works by the landscape painter; to Jan 25

■ NEW YORK

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
George Balanchine's The Nutcracker; Dec 4, 5, 6, 7, 9

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Don Giovanni: by Mozart. Production by Franco Zeffirelli; Dec 9
● La Clemenza di Tito: by Mozart. Conducted by James Levine in a staging by Jean-Pierre Ponnelle. Cast includes Anne Sofie von Otter and Anthony Rolfe Johnson; Dec 6
● The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Dawn Upshaw and Samuel Ramey; Dec 4, 6
● Turandot: by Puccini. Revival of a staging by Franco Zeffirelli; Dec 5

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Wolfgang Sawallisch in works by Beethoven. With soprano Eva Mei, tenor David Kübler, bass Jan-Hendrik Rootering and Choir led by Arthur Oldham; Dec 4, 6

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Dec 6

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 6, 9

Théâtre des Champs Elysées
Tel: 33-1-49525050
Fidelio: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, with the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera. Conducted by Louis Langrée; Dec 9

■ SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● Eugene Onegin: by Tchaikovsky. Yuri Temirkanov conducts his 1980s Kirov Opera production, with a cast including Anthony Michaels-Moore; Dec 5, 7
● Rigoletto: by Verdi. Conducted by Patrick Summers in a production by Mark Lamos, with sets by Michael Yeargan; Dec 4, 6

■ ST IVES

EXHIBITIONS
Tate St. Ives
Tel: 44-1736-796 543
Roger Hilton (1911-1975): around 40 paintings and drawings and 16 sketchbooks are brought together in this show devoted to one of the most important post-war British painters. The exhibition traces Hilton's development through his drawings, while a room devoted to European abstraction registers the impact of artists such as Mondrian; to Apr 26

■ VIENNA

EXHIBITIONS
Jüdisches Museum
Tel: 43-1-535 0431
www.jmw.at
Max Liebermann: selection of paintings by the German Impressionist dating from the period 1900-1918, during which the Jewish haute bourgeoisie flourished. Liebermann was an active collector of the French Impressionists, and his collection is partially reconstructed here. The show also focuses on the latter part of the artist's life, after the National Socialist takeover, when he found himself a cultural outcast; to Jan 18

Kunstforum der Bank Austria
Tel: 43-1-533 2266
Art and Insanity: wideranging survey of the relationship between madness and the visual arts, from the Baroque to the modern. The 350 works on display include Géricault's portraits of the mentally ill, 19th century representations of lunatic asylums, and works by psychotic artists; to Dec 8

■ WASHINGTON

CONCERTS
Kennedy Center
Tel: 1-202-467 4600
National Symphony Orchestra: conducted by Maximiano Valdes in works by Ginestra, Puccini, Verdi and Prokofiev; Concert Hall; Dec 4, 5

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC Europe**
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

COMMENT & ANALYSIS

Economic Viewpoint • **Samuel Brittan**

'Asian model', R.I.P.

A modest consolation for the Far Eastern financial setbacks is that we should now hear rather less about the much canvassed virtues of Asian capitalism

For many years now we have been bombarded with messages saying that east Asian countries have invented a non-individualistic form of capitalism superior in kind to the self-centred hedonistic kind enjoyed in the west.

The messages have mostly come from long-time western opponents of competitive markets after they could no longer claim that European-type corporatism was achieving results. But in recent years some east Asian leaders, notably Lee Kuan Yew of Singapore and Mahathir Mohamad of Malaysia, have joined in proclaiming so-called Asian values. Proponents of these values argue that filial piety and the subservience of the individual to communal rights have been the key to growth and stability.

On the left, the east Asian pattern has been praised by western commentators who envy the close relations between government and business in many of these countries and the element of central guidance behind their development. The authoritarian right has been impressed by the limits placed on any criticism of authority, the resolute suppression of "permissive" lifestyles and the draconian punishments for minor offences.

Yet Europeans and Americans would always have been wrong to panic about the supposed threat from Asia. As Christopher Lingle, the US economist, remarks in a new study*, "transient western problems associated with restructuring in response to the demands of the global marketplace have been exaggerated by critics into a signal of the end of an era of economic ascendancy for Europe and America".

For, in spite of all the propaganda, the content or existence of the supposed shared values is problematic. The vast east Asian region is endlessly diverse. It contains Japan, a leading member of the Group of Seven top industrial countries, China, still a very poor country struggling to rid itself of its Maoist heritage, the smaller "tiger economies" that have been growing rapidly in recent years, others that have been trying to emulate them, and some that have not even reached the starting post. About the only thing that unites them is the refusal of most of their rulers to countenance criticism of each other. If you want to hear China's occupation of Tibet condemned, do not go to an east Asian conference.

A real and recurring Asian model, according to Mr Lingle, is the "one family state". Harsher critics talk of "crony capitalism". Mr Lingle believes that the phase of very rapid growth in parts of east Asia has much in common with comparable growth rates experienced by the defunct Soviet Union, which were too often taken at face value.

Even Paul Samuelson, the Nobel Prize economist, once predicted that Soviet living standards would catch up with those of America by the early 1990s. Soviet growth was genuine enough, but based on the forced injection of capital and western technology, which provided only a one-shot boost. Authoritarian arrangements do not encourage innovation or adaptation.

Recent financial crises have shown that, far from having developed a superior model, some of the most highly praised east Asian economies are prone to all the excesses of the Anglo-Saxon form of capitalism and then some more. They have developed "bubble" economies with an over-indulgence in real estate and stock market investment, driven by lax bank lending policies as well as overoptimism by foreign investors. At one point the aggregate market value of real estate in Greater Tokyo was estimated to be larger than that of all the property in the US.

The financial storms are not just a chance misfortune but a direct result of the much-vaunted special features of the Asian model. Michel Camdessus, managing director of the International Monetary Fund, who is no free-market fanatic, has just remarked that international investors "who previously had chosen to ignore... the murky intertwinings of banks, companies and governments, decided it was much safer to believe the worst". In direct rebuttal of Dr Mahathir's repeated attacks on currency markets, Mr Camdessus replied: "I have never seen a speculative attack when a macro-economy is strong and government policies are sound."

Alan Greenspan, chairman of the US Federal Reserve, has said that government-directed investment "inevitably has led to the investment excesses and errors of the last few years leading to misuse of resources, unprofitable expansion, losses and eventually loan defaults".

Political systems, he remarked, substitute hope or wishful thinking for difficult pre-emptive policies. International assistance without reforms, such as much greater transparency in financial systems, would be "worse than useless".

Present crises are not merely financial. A central part of the growth strategy of many east Asian countries is government-directed investment funded through taxes and forced savings. As Gavyn Davies of Goldman Sachs has noted, there has been overinvestment in real as well as financial assets. When a country's capital stock far exceeds its ability to make use of it, investment inevitably runs into diminishing returns.

I do not know whether Mr Davies realises that he has rediscovered the "Austrian" theory of the trade cycle, emanating from overinvestment fed by excess credit. This theory was not after all killed by Keynes, even though Hayek chose the wrong time – the 1930s – in which to promulgate it. In any case, I hope that Mr Davies will draw his analysis to the attention of his friend Gordon Brown, the UK chancellor, who still seems to take it as axiomatic that investment is always a good thing.

These longer-term reflections are not meant to divert attention from immediate firefighting. This means action spearheaded by the US administration and the IMF to contain the damage and minimise contagion to the rest of the world. About a third of US exports go to east Asia and Japan combined. Further afield, a Korean investment project in the UK has been put on hold and India has had to raise interest rates to protect its currency.

Clearly there is scope for many things to go wrong. The IMF is having to tap the resources of western governments, including European ones. It will also have to be careful in how far it urges retrenchment on its borrowers. A programme that might be sensible for a small individual country could well be excessively deflationary if applied to a sufficiently large part of the Asian economy. Above all there is the responsibility of the Japanese government, which, unlike the others, is in a position to maintain home demand, but which foolishly raised taxes out of overzealous devotion to the balanced budget religion.

As anything that can be misunderstood will be misunderstood, let me draw attention to the quotation marks around the words "Asian model" in the title of this article. I am not arguing that the growth of east Asian countries is over. On the contrary, growth is likely to resume after the present adjustments. What is over is the so-called "Asian model" as a system of organisation which western countries should either fear, or attempt to emulate.

**The rise and decline of the Asian century, published by Sirocco, 08080 Barcelona*

How growth rates differ

GDP % growth: annual averages

	1950-59	1960-69	1970-79	1980-89	1990-95
OECD average	–	5.2	0.9	5.8	1.9
US	4.0	4.3	3.2	2.7	1.8
Germany	–	4.4	3.1	1.8	2.5
UK	2.6	3.2	2.4	2.4	1.0
China	–	–	–	9.3	10.2
Hong Kong	–	–	9.2	7.3	5.1
South Korea	4.3	7.6	9.6	7.8	7.8
Indonesia	–	3.0	7.8	5.7	7.1
Japan	–	10.1	5.2	3.8	2.1
Malaysia	–	–	8.1	5.7	8.9
Philippines	7.1	4.8	6.1	1.9	2.3
Singapore	–	8.9	11.1	7.4	8.6
Taiwan	–	–	9.8	8.1	6.4
Thailand	4.7	8.3	7.3	7.0	8.9

Source: Lingle, based on IMF

BOOK REVIEW • **Peter Martin**

THE DEATH OF DISTANCE: How The Communications Revolution Will Change Our Lives. By Frances Cairncross
312 pages, Orion Business Books, £18.99,
and Harvard Business School Press, $24.95

Balanced optimism on innovations

Important innovations typically follow a sinuous curve in the mind. It takes a while for the significance of, say, the car, telephone or television to sink in. Once the importance of innovations is recognised, their short-term impact is exaggerated. That leads to a backlash of frustrated expectations. But a few decades later, the innovations can be seen to have changed everything.

The trick in writing sweeping essays about the future is to judge each of the three inflection points accurately: to spot the technologies that will make a difference, to assess their short-term limitations, and to tease out the broad, systemic implications half a century hence.

It is in this area of judgment that Frances Cairncross's book is so valuable. Few of the facts that she cites in her tour of the cyberworld will come as a surprise to the assiduous reader of this newspaper or The Economist (for which she writes). Both publications, indeed, feature prominently among the source material in the footnotes.

But that is not the point. Cairncross manages to distill into a single readable volume almost all the current thinking about the subject, saving the reader from ploughing through a mound of conflicting material. More important, she adds value by judiciously weighing the impact of individual innovations, highlighting those that will matter and the timescale over which their impact will be felt.

In this role she illustrates one of her own conclusions: that in an era of info-glut, "intermediaries will still be in demand, as long as they realise that their key to success is not their ability to access information but to interpret it and market the result".

One such act of interpretation is the book's reminder that the humblest instrument of the communications revolution, the telephone, has by no means reached the end of its capacity to transform economies and societies.

The continuing collapse in the cost of providing a long-distance call, the increase in the number of things a telephone can do, and the "wiring of the world" will have a profound impact because the telephone is so simple to use and widely distributed.

In highlighting the importance of changing prices, this chapter reflects the book's balance between economic and technical developments. Cairncross compares the transition the telephone companies must go through with that experienced by deregulated airlines. In some ways (such as balance-sheet strength) the telcos are better placed than their airline equivalents; in others (such as the speed of technological change) they are worse off.

The result is likely to be the same: swings in profitability, loss of market share and a change in the pattern of pricing. "Just as no two passengers on an airline today seem to pay the same price for a seat, in future no two callers will pay the same price for a call."

Cairncross concludes, not surprisingly, that the collapse in long-distance telephone prices will make distance irrelevant in many business decisions. "Companies will organise three types of work in three shifts according to the world's three main time zones: the Americas, east Asia/Australia, and Europe."

Other changes will take longer to arrive, but may be deeper. Small companies, and small countries, will be more viable than before. Brands will be more important. "What's hot – whether a product, a personality, a sporting event, or the latest financial data – will attract greater rewards."

It will be easier to find buyers but harder to make fat margins. "The office will become a place for the social aspects of work, such as celebrating, networking, lunching and gossiping." *Real* work will be done at home – and home design will adjust to reflect this.

Ideas will proliferate more rapidly, levelling the global playing field. Governments will find governing harder, and will have to bid for citizens. US influence will grow. English will become the standard second language, but – paradoxically – minority languages and cultures will flourish.

As this random selection of her conclusions indicates, Cairncross's underlying approach is a sort of brisk optimism. This is best captured in her beliefs that e-mail will improve young people's prose style; and that "above all, it will be easier to find somebody to talk to... as a result, the world will, in all probability, be a better place". You do not have to be a Luddite to suspect that these views are likely to prove rose-tinted.

Still, balanced optimism is in short supply in futurology, where the choice is often between hysterical gloom and Panglossian technology-worship. In avoiding these extremes, Cairncross has performed a genuine service.

The Death of Distance is available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outside UK). Free p&p in UK

Personal View • **The Prince of Wales**

At the heart of business

Companies should invest more in local communities – to mutual benefit

I have been president of Business in the Community since 1985. Looking back over the 450 events with which I have been involved in the intervening 12 years, it is encouraging to realise how much has been achieved in persuading companies to see the benefits of community investment.

Many of the original and, at the time, unorthodox ideas have since become accepted parts of corporate wisdom – such as building partnerships between the public and private sectors, backing community entrepreneurs and encouraging companies to devote a percentage of pre-tax profits towards community investment.

Business in the Community, which began with a handful of pioneering companies, now has 400 members (including three-quarters of the FT-SE 100), a national network of regional support and six business-led teams focusing on how companies can make the greatest impact on some of our most deprived communities.

My experience with Business in the Community has taught me three key principles for engaging business in the problems of the community. The first is partnership. The power of partnership was first demonstrated when, in 1985, the example of Halifax, West Yorkshire, taught business leaders that, in co-operation with the local authority, they could help bring back employment opportunities to a declining milltown. That experience of persuading businesses to become involved in long-term, sustainable partnerships continues to be at the heart of Business in the Community's work.

The second principle is the importance of encouraging business leaders to see for themselves the problems, opportunities and examples of best practice on the ground. More than 800 business leaders have taken part in my "Seeing is Believing" tours in the past seven years. The practical results have been heartening.

Many visits have encouraged companies to bring personal and management skills to the community. Under the auspices of KPMG, the accountancy firm, 320 business leaders have been paired with head teachers across the country in a teachers' "mentoring project". Regeneration partnerships have been formed in Great Yarmouth, Norfolk, following a visit led by Allen Bridgewater, the chief executive of Norwich Union, and in Thanet after a visit led by Sir Martin Laing, chairman of John Laing, the construction company. The full list of corporate involvement makes encouraging reading.

The third principle is the priceless value of that unsung hero or heroine, the community entrepreneur. Those communities which, against all odds, have succeeded in reversing a spiral of decline have done so, in my experience, because of local characters like Paddy Doherty in Londonderry who, in 1981, started to revitalise the bombed-out and run-down centre of his city. The results are spectacular.

I was delighted to hear Tony Blair, the prime minister, recently endorsing the contribution made by community, or social, entrepreneurs. But however inspiring the individual, our experience in Business in the Community shows that behind every budding community entrepreneur there needs almost always to be a network of business support.

Some of the most senior business leaders involved in Business in the Community's work have been vital in working with community entrepreneurs, so that each can give and gain from the experience of the other. Bill Castell of Amersham, Neville Simms of Tarmac, and Sir Neil Shaw, of Tate & Lyle, are three examples. If companies are prepared to back the individual on the front line, whether a community entrepreneur or a dedicated head teacher, the results can be inspiring. I shall be seeing today the results achieved at Winton Primary School in King's Cross by a head teacher where, with the help of business and community volunteers, reading skills have improved dramatically.

Gifts in time and kind are becoming as important as gifts of cash. Companies serious about their management development use community assignments to stretch the skills of their young managers. Marks and Spencer, for example, places 300 staff a year on 100-hour assignments and full-time secondment. And last year I was able to set up a new initiative called "Gifts in Kind", which will make it easier for companies to recycle surplus products and IT equipment to community organisations that might otherwise go to waste.

Building social cohesion, raising achievement in schools, getting young unemployed off welfare and into work, and attracting a diverse workforce are seen as areas where the private sector has much to contribute. The government is seeking to utilise the hard-won experience of business leaders who have been involved with Business in the Community.

It is interesting, for example, to see that Business in the Community's experience is being put to use with Sir Peter Davis, chairman of Business in the Community, and Graham Hawker, chairman of Business in the Community Wales, chairing national taskforces on Welfare to Work.

But obviously a great deal more remains to be done. I hope Business in the Community will go on striving to raise the quality of corporate community investment. We must encourage companies to involve *themselves* in the most disadvantaged communities and the most intractable issues and I hope that the work of Business in the Community – to change the mainstream attitudes of companies and to influence how they recruit, train, sell, purchase and invest – will go on.

I also hope that Business in the Community will play a helpful role in inspiring companies to develop the ethos and values that could underpin their community work and initiatives in the run-up to the millennium and the century beyond.

The need for long-term sustainable solutions to the problems faced by our most struggling communities will not magically disappear in 2000. The vital contribution that business can go on making in the search for practical solutions will continue and I hope that the increasing number of examples of best practice all over the country will inspire others to harness the power of the business community to the needs of those who constitute its less-favoured clients and neighbours.

See Business in the Community magazine

Prince Charles: has witnessed many changes as president

·LETTERS TO THE EDITOR·

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We are keen to encourage letters from readers around the world. Letters may be faxed to +44-171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Credit ratings in Asia appear not to be making the grade

From Mr D.K. Patel.

Sir, Surely one of the casualties of the current financial turmoil in Asia should be the reputation of rating agencies. As markets have collapsed, we have seen a rush to downgrade companies which a few months ago were worthy of investments. An extreme case is the way agencies have reacted to the recent plight of the Japanese banks. Several banks raised hundreds of millions of dollars worth of second-tier equity in the international market this year. Quite a few are now facing steep downgrades.

When agencies were rating for Japanese banks' perpetuals, they were fully aware of their latent bad debt situation. This has been an open secret for several years. Now that we have a disclosure (albeit partial) of their problems, the quality of their paper is suddenly called into question.

So how much can an investor rely on the judgment of rating agencies? Recent experience seems to show that ratings, given during rising markets, suddenly turn sour when the markets decline. I suggest that investors in future would be served better following their own assessments and instincts, rather than being persuaded by ratings.

D.K. Patel,
8 Mansfield Road,
Hong Kong

Money-saving consultancy system

From Mr John Knight.

Sir, I felt your article on business jargon ("Prize-winners in the business of jargon", November 24) to be an unwarranted slur on management consultants, whom I have always admired for their mastery of precise language. Indeed, a little semantic analysis of the expressions they use reveals they are constructed on strictly logical principles.

The expressions are usually four-word phrases of which the first is either a synonym for "important" or an adjective demonstrating the consultant's grasp of the latest advances in management theory.

The second word is a noun defining a component of a business. It is usually a familiar term, but archaic words such as "employee" are never used where modern alternatives like "human resource" are available.

The third word is either synonymous with "change" or states the desired result of change. Change words beginning with "re", such as repositioning and realignment, have the most impact. The result of change is, of course, always something that everyone will support. The last word is a noun denoting something needed to achieve change. It always has strong connotations of relevance and good value.

I have found this analysis so fruitful in generating business improvement ideas that I have recently automated the whole process, with a considerable saving in consultancy fees.

John Knight,
8 Essenden Road,
South Croydon,
Surrey CR2 0BU, UK

Changes needed in customs practices

From Maria Livanos Cattaui.

Sir, I refer to the letter re customs corruption from Leonid Lozbenko, deputy secretary general, World Customs Organisation (December 1). The WCO is right in its callfor a more general and acute political and commercial appreciation of the resistant complexities of customs malpractices that exist in far too many economies.

The World Trade Organisation has done sterling work in liberalising world trade in goods, but the individual consignments (what trade really consists of) are still far from free.

Unnecessary constraints still focus on official interventions at frontiers, principally customs. The core problem is inefficiency, which is often exacerbated and perpetuated by corrupt practices.

The International Chamber of Commerce seeks reform through a systematic improvement of efficiency standards and has set out some key characteristics of a sound customs service in its recently issued international customs guidelines, drafted with the benefit of much useful comment from WCO members.

We are moving ahead, in our central strategies and through the influence of our numerous national committees, to supplement the practical application of the ICC's guidelines with pressures for specific improvement in such areas of customs control as automation, risk-assessment and deferred payment systems.

These all help to identify and limit opportunities for irregular practices.

Meanwhile, we are urging the WTO to back global customs reform by giving obligatory and enforceable status to the Kyoto convention on simplified and harmonised customs procedures under revision by the WCO.

Maria Livanos Cattaui,
secretary general,
International Chamber of Commerce,
38 Cours Albert 1,
75008 Paris,
France

Russians were also victims

From Mr H. Chamings,

Sir, I read of the intention of Robin Cook, the UK foreign secretary, to sponsor help (including government help) for families of sufferers from Nazi oppression, and the present focus on Swiss bank accounts ("Fund proposed for Nazi victims", November 29). Late, perhaps, but no doubt welcome to many future recipients.

In the light of recent consideration of the white paper from our new Department for International Development, an additional question arises. It appears in the United Nations Association-UK introductory papers to the UN system-wide special initiative for Africa. I quote: "How much of the wealth in Swiss bank accounts belongs to the corrupt (ex) African leaders, particularly those now deceased?"

I would pose a further potentially embarrassing question: is nothing to be offered to those dependents of Russians who survived that Nazi assault, or who died as prisoners of war?

Harold Chamings,
263 Warminster Road,
Sheffield, S8 8PS,
UK

Decided to opt out

From Mr C.R. Peer.

Sir, I entirely agree with Sir Bryan Nicholson's letter (November 27). I recently informed the Institute of Directors that I was not renewing my membership because of its opposition to UK membership of Emu. I was a member for less than two years but was never consulted about my views on any matter during that time.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday December 4 1997

$55bn rescue for Korea

With help from its friends, the International Monetary Fund has agreed to provide $55bn (£33bn) to South Korea, in its largest ever operation. Against the background of the Asian financial crisis, this is probably justified. Yet its size must make any observer queasy. Will foolish outside investors be adequately punished and is Korea committed to the necessary reforms?

This is a complex arrangement: the IMF is to provide $21bn, the World Bank $10bn, the Asian Development Bank $4bn, Japan $10bn, the US $5bn and other high-income countries the rest. The details of the promises made, in return, remain unclear. But, apart from fiscal and monetary tightening, their focus is – rightly – on the financial sector.

Measures are expected to include immediate closure of some banks, greater freedom for foreign financial institutions to establish in Korea and a halt to government direction of bank lending. Further trade liberalisation is also probable. The chaebol, the conglomerates whose financial plight is at the root of the crisis, will now have to restructure or perish.

Yet how can so vast an operation be justified? After all, Korea is one of the world's wealthier countries. The only good answer is the Asian financial crisis. This operation should convince foreign lenders that sound borrowers will not fail merely because exchange-rates are pushed into collapse. That knowledge should, in turn, help restore confidence.

Yet private lenders and borrowers must also be penalised for bad decisions. Where financial institutions and companies are bankrupt, their creditors – except, perhaps, small domestic depositors –. should share the pain. The IMF money is to limit exchange-rate overshooting, cushion the costs of adjustment and accelerate reform. It is not to bail out every idiot who has lent short term to fund long-term investment.

As Alan Greenspan, chairman of the US Federal Reserve, said on Tuesday: "Assistance without further reform of financial systems and economic policies would be worse than useless, since it would foster expectations of being perpetually bailed out."

For Korea, this must mark the end of an era of dirigisme that contributed to its extraordinarily successful development. But this crisis has shown that such interventionism cannot be combined with freedom to borrow abroad. Since the latter can hardly be halted, Korea has no choice: it must liberalise systematically. If this package halts the regional contagion and leads to domestic reforms, it will be worth every cent.

Old-time SPD

Ten months before Germany holds its next general elections, the opposition Social Democratic Party (SPD) is still in a terrible muddle. It cannot decide who it wants as leader, and it cannot decide what platform it wants to fight on. And yet all the members attending the party conference in Hanover this week were in a fine state of self-congratulation.

If ever there was a chance for the SPD to unseat Helmut Kohl, Germany's chancellor, this should be it. His ruling coalition of Christian Democrats and Free Democrats is divided and bereft of fresh ideas. The FDP is in danger of losing its seats in parliament if it cannot win more than 5 per cent of the vote. And Mr Kohl is looking tired and stale. But the SPD does not look like an alternative government.

Part of the problem lies with Oskar Lafontaine, the party chairman. He is a marvellous orator from big platforms, and he knows it. So he can get away with reworking tired old policies and still make the party faithful love them. This week he was on about curbing financial speculators and urging business to put workers' interests above shareholder value. It went down a treat and he was resoundingly re-elected leader.

The trouble is that Mr Lafontaine is a loser outside the conference hall. He was trounced by Mr Kohl in the 1990 elections, when he simply misread the popular desire for unification. Now he is harking back to the policies of the 1960s, when the urgent need for an overhaul of the German tax and welfare system is obvious to everyone else.

Some say that Gerhard Schröder, the SPD state premier in Lower Saxony, is the man to beat Mr Kohl. He is more pro-business, and more Euro-sceptical than his colleagues. But the party mistrusts him. He is too pragmatic for the faithful and too nakedly ambitious. He was grudgingly elected to the national executive, behind both Mr Lafontaine and Rudolf Scharping, the last party leader to lose to Mr Kohl.

Even Mr Schröder has made himself a hostage to fortune: he has promised to withdraw from the race to be chancellor if his own vote in local elections in Lower Saxony in March drops by more than two percentage points. So the party cannot decide who will fight Mr Kohl until Lower Saxony has voted.

The trouble with the SPD is that it does not seem hungry enough for power in Bonn. It already holds power in a majority of the provincial parliaments and in the Bundesrat, the upper house. That keeps most of its leaders amply occupied. The SPD only has a chance of winning the next elections if it looks like a party ready to reform itself and the country. Under Mr Lafontaine it just looks far too old-fashioned.

Unsafe bones

The UK government's proposed ban on selling beef on the bone will ruin far more than the pleasure of meat lovers who can no longer enjoy roast ribs, oxtail stew and T-bone steaks.

It is a devastating blow for farmers reeling from a collapse in their incomes, caused partly by the strong pound and partly by loss of consumer confidence resulting from earlier episodes in the BSE saga.

Although only about 5 per cent of beef is currently sold on the bone, the whole meat market is likely to feel the impact of more adverse publicity. Sadly, this comes amid signs of a tentative revival in beef sales, if not in prices, and some hopes of an eventual end to the European Union trade ban.

Jack Cunningham, agriculture minister, had no political choice but to act on the advice of his scientific advisers. Given the disastrous legacy of inadequate action and excessive reassurance by the previous government, he could not take time considering the matter.

The instant ban may come to be seen in hindsight as an overreaction but at least it is clear cut. It might not have been necessary had confidence in official pronouncements not already been shattered by the previous government's incompetence. As it is, the alternative – simply advising consumers about the small risk of eating beef on the bone – would just have added to the confusion.

If there is a risk in the UK, where BSE is being eradicated, then the same precautions should be taken elsewhere in Europe where cattle are infected. In Britain, the latest disclosure will deepen the controversy surrounding the BSE saga. More questions will be asked about its origins and about the agonising way it has been allowed to unfold.

The demoralising fact is that more bad news is all but certain to ensue, if not from scientific research then about the human victims of Creutzfeldt-Jakob disease who were almost certainly infected by eating BSE-contaminated beef in the 1980s. Twenty-two people have died from the new variant of CJD linked to BSE, and most scientists predict many more cases in the years ahead.

This makes it the more urgent for government, industry and consumers to be allowed to learn the lessons of the crisis. Yesterday's announcement was right, but it is not enough. Tony Blair, the prime minister, needs to announce without delay that the government will establish an independent inquiry into the BSE debacle, to report no later than the middle of next year. Without one, the chances of consumer confidence in beef being restored will dwindle by the week.

Marooned in a minefield

Although the momentum of the US scandal over fundraising has faded, its legacy will still influence politics, says **Patti Waldmeir**

The final word on the great American campaign-finance scandal of 1996 goes to Dick Morris, chief architect of Bill Clinton's successful re-election campaign: US political fundraising laws are so porous that "you'd have to be a genius to be a criminal".

Those will not, of course, be the final words on this year's scandal, which has consumed the politics of Washington for over a year already. Many more will be written and spoken by Republicans, the media and advocates of "clean politics" who are not yet ready to abandon the fight.

But the momentum that has driven the scandal for the past year has faltered, probably terminally. For when Janet Reno, US attorney general, announced on Tuesday that she would not appoint an independent prosecutor to investigate the narrow issue of fundraising phone calls made by the president and vice-president, she sent a broader signal of exoneration. Despite thousands of man-hours of investigation, she has so far found no evidence of criminality at the highest levels of the White House.

The resolution of scandal will affect the public and politicians in different ways. It is unlikely to alter the widespread public sense of disgust and cynicism about the influence of money in politics. But it could help Al Gore. By removing the judicial spotlight from his fundraising activities, it should remove an obstacle to his presidential ambitions. Even so, the scandal will leave its mark on the Democrats, by frightening off more donors and leaving the party beholden to its traditional union base.

All this is to assume that matters will not change. Ms Reno's own sleuths, or those in the media, might yet uncover a clear case of wrongdoing. New allegations surface every few weeks. Just a fortnight ago, US newspapers carried headlines charging that the White House sold burial plots at the prestigious Arlington cemetery in exchange for campaign donations.

Investigations will continue on several levels: on Capitol Hill, where campaign finance hearings are going on in the House, in the media and even within Ms Reno's department, where the attorney general has promised that "no allegation will go unexamined". Probes of the activities of lower-level officials like Bruce Babbitt, the interior secretary, could still reveal links to the White House. And Republicans will try to stoke the fires of Democratic scandal, most immediately by exploiting differences between Ms Reno and Louis Freeh, the FBI director, who openly favoured the appointment of special counsel. Both may well be summoned before the House investigating panel to testify about their differences.

But for the most part, the battle over money and politics will now be confined to the political arena, where charges are more easily dismissed as partisan. And the House probe will be undermined further by the fact that the Indiana Republican who heads it, Dan Burton, is himself accused of a serious case of fundraising abuse.

The appointment of an independent counsel would have meant an altogether different level of scrutiny – and a steady flow of headlines that would have reflected badly on the president, who is bidding for a place in history, and, more importantly, on Mr Gore, who is fighting for the Oval Office. Ms Reno's decision removes a potentially serious obstacle to the candidacy of Mr Gore, while alleviating one of the most damaging scandals afflicting Mr Clinton.

Though the institution of special prosecutor has been discredited since the halcyon days of Watergate, a continuous judicial probe would have kept the White House squirming for many crucial months ahead of the next election.

But even if the political classes keep the scandal simmering, there is little sign it will command much public attention. Most Americans dismiss the bloodsport between politicians and journalists over campaign finance as a Washington game with little relevance outside the Capitol beltway. Their lack of outrage reflects not acquiescence, but their low expectations of politicians. Opinion polls show the public disgusted by the cost and ethics of campaigns – and cynical about prospects for change.

The nature of the campaign finance investigation to date has only deepened that cynicism. Outside Washington, many Americans complained that the probe verged on the absurd: Ms Reno's investigation of Mr Clinton's fundraising phone calls focused on whether calls were made from one room rather than another at the White House. She found that the president called two donors to thank them, and one to solicit funds, but all calls were made from the White House residence, which is not unlawful. So she was able to clear the president – on what plays in Peoria as a rather absurd technicality.

Even more judicial hairsplitting was involved in the decision regarding Mr Gore's phone calls. Ms Reno found that he called 45 potential donors from the White House, but that he solicited only "soft money" for general party campaigning, rather than "hard money" for a particular candidate. Under the law, this did not violate the injunction against fundraising on Federal property – even though some of the money later ended up in a Democratic National Committee hard-money account. Ms Reno concluded that Mr Gore did not know of the diversion.

The law recognises a gulf between "hard" and "soft" money which largely eludes the general public. Parties can legally collect virtually unlimited donations of soft money for so-called "issues advocacy" so long as the funds are not used to promote a particular candidate. But this is the thinnest of fictions: in the 1996 election, Democratic "issues" advertisements prominently featured the presidential visage. The Republican party did the same, if anything on a grander scale. It even used the same film in candidate and "issues" adverts.

Mr Clinton sheltered behind this fiction to get around a $37m limit on spending for the primary election campaign, using party funds to finance an extra $44m in early television adverts which may have clinched his victory.

Altogether, Republicans raised $141m in soft money and Democrats $122m in 1996, a combined total nearly three times higher than the 1992 election. The last election was a watershed: the year when both parties stopped even pretending to obey the laws put into place to clean up politics after Watergate.

Both parties clearly violated the spirit of the electoral laws; but as Ms Reno said on Tuesday, her finding was based not on spirit but on "the law's letter". This open mocking of the electoral laws has shaken any lingering public belief in the ethics of politicians. But with public confidence already at low levels, it seems unlikely directly to affect voting patterns. And the issue most likely to have inflamed public tempers – the allegation that Democrats took money from Chinese and other foreign donors – has yet to be stood up by any investigation, including the Senate probe which abandoned the task after months of hearings.

Indirectly, though, the effect could be significant. For though popular support for Democrats is unlikely to be much affected by the scandal – not least because the public blames Republicans equally with Democrats – the Democratic vote could be compromised because the scandal has hit party fundraising.

November's round of gubernatorial and congressional contests showed the Democrats at a serious disadvantage, both because donors have held back funds to avoid potential scrutiny by a prosecutor, and because the party was required to give back $3m in illegal or improper donations, leaving it $15m in debt. The election in Staten Island, New York, was particularly worrisome for the party: a strong Democratic candidate there unexpectedly lost to a heavy-spending Republican. The Democrats, who historically have always lagged the Republicans in fundraising, face a potentially serious deficit ahead of the mid-term 1998 congressional elections, unless donor jitters clear up soon.

Fundraising woes could affect not only the party's overall electoral prospects, but the nature of the party, at least in the short term. For with other big donors absent from the fray, Democrats will be left with no choice but to depend heavily on labour – for money and for volunteers. In the 1996 congressional elections, unions spent $35m for the Democrats on television advertising alone, tipping several marginal contests the Democrats' way. The upshot could increase the clout of the "liberal" (left) wing of the party, at the expense of the more moderate new Democrats. Ironically, that would mean the fundraising scandal could indirectly jeopardise one of the most important goals of Mr Clinton's presidency: moving his party and the country's political agenda towards the centre.

Signs of a shift to the left are already apparent: Democratic congressman, beholden to labour for finance, helped defeat Mr Clinton's request last month for "fast track" trade negotiating authority. Indeed, the fast track defeat is arguably the clearest single casualty of the year-long scandal.

Only the presidential campaign will tell whether the fundraising issue has also hurt Mr Gore, who has more to lose than the president from allegations of impropriety because of his image of public integrity. Most political analysts think he will have ample time to recover lost ground – unless the scandal breaks out again.

Meanwhile, the public will regard its elected representatives with ever more distaste, as they step up their fundraising activities ahead of the mid-term elections. And the larger issues – the cost of campaigning, and the troubling link between money and politics – are no closer than ever to resolution.

· OBSERVER ·

Life of O'Reilly

■ Mixed emotions on the Emerald Isle as Tony O'Reilly, Ireland's prodigal son, prepares to step back from the helm of Heinz. Retirement will give the former rugby star more time to play "Celtic monopoly" with his business interests back home.

The food giant stole O'Reilly away from his native land back in 1969, when it poached the 33-year-old whizz-kid to run its UK operation. But former Heinz boss Burt Gookin was so impressed that, from the very start, he allowed O'Reilly to keep a stable of private interests.

These days the family empire includes two out of every three newspapers sold in Ireland, a County Kilkenny zinc mine run by Tony junior, and a newly-acquired I£1m mansion in Dublin's Fitzwilliam Square.

And O'Reilly's always had impeccable connections. Back in '69, prime minister Jack Lynch did his best to persuade the young gun – who'd already launched Kerrygold Butter into an unsuspecting world – to turn down Heinz and forsake the global food industry: even the promise of a job as agriculture minister didn't change O'Reilly's mind.

But it's unlikely that he ever regrets his decision to devote his prodigious energies to business. His substantial personal fortune must be a comfort. And when he wanted the ear of prime minister John Bruton earlier this year, O'Reilly didn't need to travel over to Dublin. The *Taoiseach* came to him.

Up for the cup

■ French prime minister Lionel Jospin is doing his level best to climb on the football bandwagon. A few days ago the basketball-loving premier held a press conference at the Matignon to throw his weight behind preparations for next year's World Cup finals, which France is hosting. Today he will be in Marseilles for the keenly-awaited draw that will divide the 32 qualifiers into eight groups of four.

But he'd do well to remember that football is, well, a game of two halves. Former British prime minister Harold Wilson is said to have blamed his 1970 election defeat on England's loss to West Germany in the World Cup quarter finals. Expect Jospin to be cheering his heart out next summer.

Dame buster

■ Belgium's *Vieille Dame* – the powerful holding company Société Générale de Belgique – is bracing itself for the arrival of its first *dame* as chief executive. She is Christine Morin-Postel, currently head of the property arm at Suez-Lyonnaise, SGB's French parent.

The venerable SGB once had stakes in more than 1,200 companies, accounting for more than a third of Belgian gross domestic product. Suez bought control back in 1988, since when the old lady has been slimmed down but rather left to her own devices.

The arrival of Mme Morin-Postel, by accounts a formidable type, could change all that. The whispers are that she's been sent to do what she has already done to other parts of the Suez-Lyonnaise empire – sort it out.

It'll be interesting to see how SGB chairman Viscount Etienne Davignon – a pipe-smoking, patrician former European Commissioner – copes with the new broom.

Unholy row

■ A decade of wrangling between Swiss Roman Catholics and the Vatican has ended with the departure of Wolfgang Haas, the controversial bishop of Chur. It's been an ugly episode that even prompted the intervention of the Swiss government; now Haas, whose strongly conservative views didn't please his flock, has been shunted off by the Pope to a new archbishopric in Liechtenstein.

Haas was opposed by his liberal flock from the outset. His appointment in 1988 to Switzerland's second largest diocese, which embraces Zurich and six other cantons, was seen as a high-handed move by Pope John Paul II to impose his protege. Since then, the bishop has upset many Swiss Catholics with his opposition to lay preachers and female helpers. Catholics have been leaving the church in droves and, in October, the Swiss foreign ministry appealed to the Vatican to resolve the conflict.

While the Swiss are relieved that it's all over, Haas might be less pleased with the outcome. As a Liechtenstein native, his new job is a homecoming. The downside is that he's moving from a diocese of 700,000 Catholics to a country with a total population of 31,000 – including a fair few protestants and agnostics.

Green fingers

■ Congratulations to Sorin Frunzaverde, a civil servant who's fulfilled his destiny by becoming Romania's new environment minister. Who better for the job than a man whose name translates as "greenleaf"?

Financial Times

100 years ago

Trade With Central Asia
The Anglo-Indian press is somewhat exercised in mind over the barriers recently raised by Russia against trade with her Central Asiatic provinces. Special reports, too, published by the Indian Government and its deputies relative to trade with Persia and Chinese Turkestan convey an idea that competition, especially from Russian sources, is acting strongly against the development and even maintenance of export trade to these countries both on our part and on that of our Indian Dependency.

50 years ago

Sabotage In France
The general atmosphere in France has become even more tense to-day after the train disaster at Arras caused by saboteurs, a series of other acts of sabotage on the railways and many clashes between strikers and the police. The Government has decided on new security measures, and is protecting the National Assembly and the Ministries against possible attacks by the use of strong forces of troops, so that parts of Paris looked this afternoon as though they were ready for a siege.

FINANCIAL TIMES
Thursday December 4 1997

Russia will raise rates to support troubled economy

By Chrystia Freeland and John Thornhill in Moscow

Russia's central bank will soon raise interest rates again in an effort to defend the rouble and calm the treasury bill market, Sergei Dubinin, the bank's chairman, said yesterday.

The rouble and Russian stocks rallied strongly on the central bank's pledge, which investors saw as a sign that the Kremlin had at last appreciated the severity of its financial difficulties.

But Russian politicians said the emergency measures would exact a high price by dashing the prospects of robust economic growth next year.

The turmoil has already bitten deeply into the central bank's hard currency and gold reserves, which Mr Dubinin said yesterday stood at $18bn. Central bank intervention in the currency and treasury bill markets has cut reserves by $3.5bn since November 21.

Mr Dubinin said the central bank, which had already raised the Lombard rate to 36 per cent, was committed to a still tighter monetary policy to defend the rouble.

"We intend to raise the refinancing rate, but will do it after determining a balance on the securities market, and this will probably be based on the results of this week," Mr Dubinin said at an investor conference. "Perhaps we will need a few days next week."

Mr Dubinin did not say how much he would push the refinancing rate, increased from 21 per cent to 28 last month.

Commenting on Mr Dubinin's promise to raise rates, Dirk Damrau, head of research at Renaissance Capital, a Moscow investment bank, said: "It is a sign that at last the central bank has awoken from its torpor."

Foreign investors have criticised Moscow for being too slow to raise interest rates in the wake of recent financial upheaval in world markets. Large amounts of foreign money have flowed out of Russian debt and equity markets.

But Mr Damrau said yesterday's moves signalled a change of heart. "I think right now people are saying that this is possibly a turning point."

The central bank said it had been reluctant to raise interest rates earlier because it had spent billions of dollars intervening in the treasury bill market to allow big investors to sell their positions without large losses.

Konstantin Korishchenko, head of the central bank's open market operations, said the bank would allow the debt market to find its own equilibrium. But some investors criticised the bank for buying back treasury bills from select Russian banks, while allowing foreign investors to bear most of the losses when prices fell.

Russian defence cuts, Page 2

Holocaust victims' gold may be mixed in bank pool

By William Hall in London

Up to 60 tonnes of gold in the Tripartite Gold pool, which was set up to return gold looted from Europe's central banks during the second world war, may have come from victims of Nazi persecution.

Elan Steinberg, executive director of the UK World Jewish Congress, said yesterday that recently declassified US documents showed a substantial amount of victims' gold had been mixed with gold from the reserves of looted central banks.

Lord Janner, chairman of the Holocaust Educational Trust, and several delegations at the Nazi gold conference in London yesterday called on the US, UK and France – the members of the Tripartite Gold Commission set up to oversee the return of looted central bank gold – to open TGC archives and settle doubts about the gold's provenance.

In the case of the Netherlands, 35.5 tonnes, or a quarter of the amount it claimed was looted, was "non-monetary" gold rather than "monetary" gold belonging to central banks, according to Mr Steinberg. Austrian non-monetary gold was 13 tonnes and the Belgian claim included 6.4 tonnes of non-monetary gold.

Until now the TGC has insisted it was involved only in returning monetary gold.

A recent report by Stuart Eizenstat, US under-secretary of state, indicated that a small amount of "tainted" gold may have slipped into the gold pool. Jewish organisations claim this non-monetary gold, now worth $500m-$600m, should have been repaid to Holocaust survivors and others instead of being used to refill the coffers of the central banks of the 15 countries that had claims on the gold pool.

The UK said it was impossible to tell if non-monetary gold was mixed in the gold pool. However, it stressed that if there was any it was a "very small amount". UK officials played down the WJC's claim that up to one-sixth of the money claimed from the Tripartite gold pool was non-monetary gold.

The UK found itself having to support French opposition to the opening of the archives before the work of the TGC was completed. In the past the work of the TGC has been delayed by quarrels between claimant countries.

A UK official said: "There is a real danger that if we were to release the information now, before the final distribution of gold, the effect would be to launch a debate among claimant countries which would delay the distribution of gold."

THE LEX COLUMN

Currency cures

The turmoil in Asian currency markets has prompted calls for increased regulation. Most of these emanate from Mahathir Mohamad, Malaysia's prime minister, but he is not alone. And his concerns are understandable enough: the sharp falls in emerging market currencies in recent months should worry any but the most complacent. The snag is that his diagnosis is off beam, while his suggested remedies would only aggravate matters.

It is true that currency markets are the least regulated of financial markets, reflecting their wholesale nature. But the aim of regulation is to prevent abuse, and there is precious little evidence that global currency markets are rigged. With daily turnover running at over $1.2 trillion a day, it would be some achievement. As for the speculators Dr Mahathir loves to blame, they are the symptom, not the cause. They may be sharks in the water, but they only congregate when bad government policies provide a whiff of blood.

The fact is that disruptive price moves occur mainly in illiquid markets. And the best way of crimping liquidity is through the sort of heavy-handed controls in which the likes of Malaysia excel. When gradual adjustment is made difficult, the only alternative is uncomfortable step changes. Dr Mahathir's desire to avoid such inconveniences is understandable. The solution, though, is not stricter regulation but the encouragement of liquid and transparent markets.

Heinz

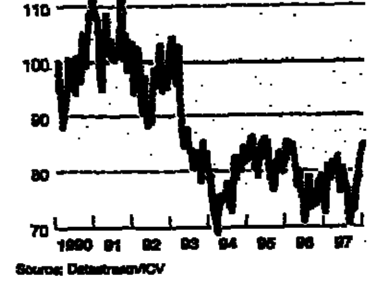
Measured over its full 18 years, Tony O'Reilly's tenure at Heinz has been an outstanding success. The US food group's market value has increased from $900m to $19bn over that period. But more recently it has become clear that the charismatic Irishman dominates Heinz's board of directors to an unhealthy degree. And this has been reflected in the shares' sharp underperformance since 1993, though they have picked up this year.

To his credit, Mr O'Reilly is stage managing his exit smoothly. The highly regarded William Johnson, who will succeed him as chief executive, was anointed as heir apparent two years ago. That does not mean Heinz's corporate governance deserves a clean bill of health. Mr O'Reilly will remain chairman until September 2000, and, though he is ostensibly non-executive, it is hard

FTSE Eurotop 300 index: 962.4 (-2.8)

H.J. Heinz

Share price relative to the S&P Composite



Source: Datastream/ICV

to believe he will not be looking over Mr Johnson's shoulder. Worse, Heinz sees no reason for a more general overhaul of the board, even though 10 of its 19 members are current or former Heinz employees and most of the so-called independent directors are old friends of Mr O'Reilly.

The worry is that this will slow the pace of change at Heinz. With annual earnings growing at around 10 per cent, the group is not doing badly. But it could sharpen its focus – Weight Watchers looks like a disposal candidate – cut costs more aggressively in Europe and expand further into emerging markets. The test for Mr Johnson will be to push such improvements through.

Alitalia/KLM

Is Alitalia really such an attractive partner for KLM? To judge from its frenetic attempts to beat Swissair and Air France for the Italian group's hand, the Dutch carrier certainly thinks so. KLM, constrained at Schiphol, desperately needs a second European hub to lift its passenger market share. This suits Alitalia, which needs immediate financial support to develop Milan's Malpensa airport. And there is an attraction of opposites: the Dutch airline has a small domestic base and a big international network, while Alitalia has the exact opposite.

But there are risks. Alitalia's loss-making habits could contaminate KLM, one of the healthiest European carriers. The Italian group is still extremely inefficient. Given the European Commission's refusal to tolerate further bail-outs, Alitalia's eventual partner could well find itself having to support the Italian carrier. And its domestic franchise – under threat from British Airways and Lufthansa – is not as attractive to partners as it once would have been.

Furthermore, including Alitalia in the KLM/Northwest Airlines alliance would not create a really powerful force. The Star Alliance and BA/American Airlines would be much stronger on crucial transatlantic and Asian traffic. The best scenario for KLM would be if BA/AA's tie-up foundered on regulatory rocks, allowing it to move in as the British carrier's partner. It should cut a deal with Alitalia only if that would strengthen its negotiating position.

UK goodwill

Investors should welcome the Accounting Standards Board (ASB) ruling on goodwill. No longer able to write off goodwill on acquisitions – the difference between the price paid for a business and its net asset value – companies will finally have to acknowledge it on the balance sheet as capital employed. Writing goodwill off against reserves was unsatisfactory and out of line with international practice. It overstated returns on investments and gave the erroneous impression that the buyer's net worth had been depleted, rendering the balance sheet meaningless.

With managers now accountable for all the costs of buying a business, it will be easier to spot those who overpay. Furthermore, the requirement to amortise should help speed the move away from justifying deals in terms of earnings per share enhancement. The new standard should facilitate scrutiny of whether acquisitions really create value for shareholders.

The ASB's innovation – allowing companies to avoid amortising goodwill and other intangible assets altogether if they can prove in an annual impairment review that it has not been dissipated – could well become the international standard. Clearly some assets, such as the Coca-Cola or Johnny Walker brands, have extremely long economic lives and should not be amortised over the normal 20 years. But in allowing companies this freedom, the ASB must insist they do actually write down their assets if they lose their glitter.

Additional Lex comment on UK coal, Page 22

Car plant for France

Continued from Page 1

near Valenciennes, an old coal mining and metallurgical centre near the Belgian border in northern France, where unemployment is about 20 per cent. Longwy in eastern France may also be in the running.

The plant is expected to produce a small car, whose prototype was revealed in Frankfurt in September, to compete with the Renault Twingo and Ford Ka. A second phase may double capacity by 2005.

Government officials indicated the amount of public aid attached to the project would be less than 10 per cent of the overall investment. There are signs that the level of subsidy may spark controversy in France and elsewhere.

Louis Schweitzer, Renault's chairman, recently indicated that, while he did not dispute the right of new market entrants to locate in France, it was "not self-evident that it makes sense to subsidise new capacity at the taxpayer's expense".

Toyota has 0.8 per cent of the French market and wants to increase this. It does not expect the push to introduce a 35-hour working week to hit the cost competitiveness of manufacturing in France.

Japan's economy 'in recession' as GDP falls 1.4%

By Paul Abrahams and Michiyo Nakamoto in Tokyo

Japan is in effect in recession, according to data released yesterday, which showed its gross domestic product contracting 1.4 per cent in the six months to September compared with the previous half-year.

The continued deterioration will fuel fears that Japan's corporate sector could be hit by more bankruptcies.

This would further undermine its beleaguered banking system and put more pressure on the yen, adding to worries about another round of competitive currency devaluations.

Most private-sector economists are predicting Japan's GDP will fall this financial year. The Economic Planning Agency admitted it would be difficult for the economy to achieve its 1 per cent growth target.

The government is expected to produce a package this month aimed at boosting the economy, including more public money to secure the deposits of bank customers and cuts in corporate tax.

Japan's economy did not contract for two consecutive quarters – the technical definition of recession – but analysts said this would have been almost impossible given the scale of the fall in the three months to the end of June.

The economy rebounded modestly in the three months to September, with GDP up 0.8 per cent on the April-June period, but the figure was below expectations. In April-June the economy contracted a revised 2.8 per cent.

Particularly worrying was a 1.3 per cent quarter-on-quarter decline in exports, until now one of the few bright spots.

In the US last month, sales of Toyota, Japan's largest carmaker, dropped 10.1 per cent while Mitsubishi Motors' fell 12 per cent.

Private housing investment fell 10.5 per cent in the three months to September. Private consumption, which accounts for 60 per cent of GDP, rose only 1.6 per cent.

Bank liquidity, Page 6
Samuel Brittan, Page 12
Yamaichi fall-out, Page 15

IMF in $55bn rescue package for Seoul

Continued from Page 1

provide $20bn in support if required, with Japan pledging $10bn and the US $5bn. Other donors could include the UK, Germany, France, Canada and Australia. The UK will contribute up to $1.25bn. The international effort exceeds the scope of recent bail-outs to Mexico, Indonesia and Thailand, reflecting concerns that Korea's crisis might threaten global economic stability because of the country's close financial links with Japan and emerging markets in Asia, eastern Europe and Latin America.

Although international financial markets are expected to be initially relieved by the IMF rescue, they will closely scrutinise the details of the conditions once they are released, probably today.

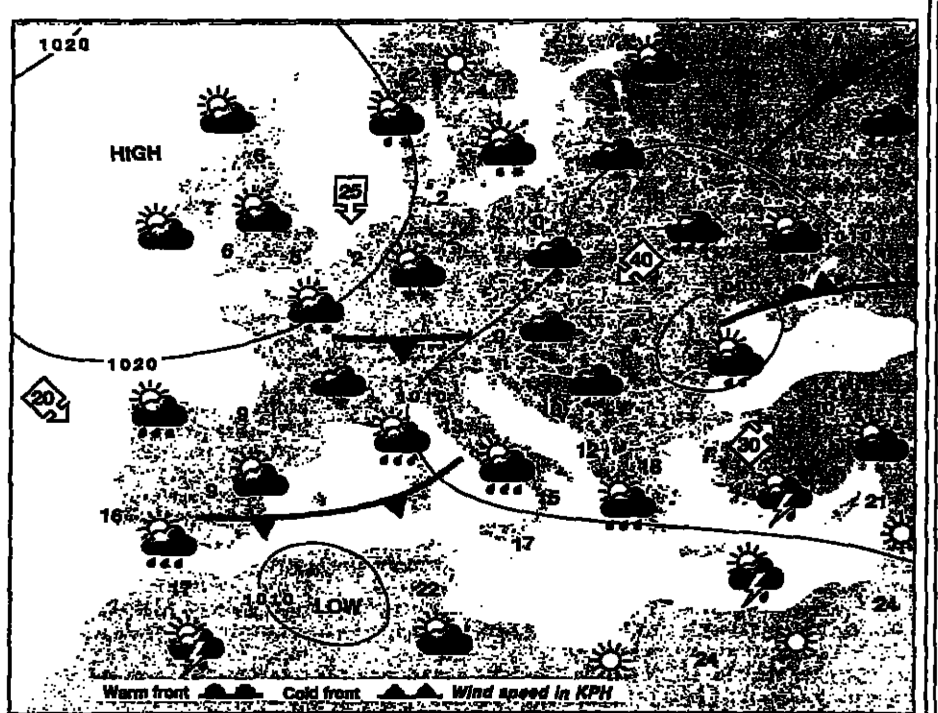
FT WEATHER GUIDE

Europe today

Much of the Mediterranean will be unsettled with showers or some longer spells of rain. Greece is likely to have the worst of the showers with thunderstorms possible. Portugal and central Spain should stay mainly dry and bright. Meanwhile, central, northern and eastern Europe will stay very cold and wintry. The area from eastern France to Moscow will be fairly cloudy and bleak with flurries of snow, heaviest across the Alps. Scandinavia will also be very cold with snow showers, but southern areas should see some spells of wintry sunshine.

Five-day forecast

High pressure will bring warmer and more settled weather to the western Mediterranean. The central and eastern Mediterranean will remain unsettled with further spells of rain and some thunder.
Central and eastern Europe will stay very cold, but the threat of snow will recede. Scandinavia will have a thaw by Monday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	Sun 5	Cardiff	Fair 5	Frankfurt	Cloudy 2	Madrid	Cloudy 9	Rangoon	Sun 34
		Belfast	Fair 4	Casablanca	Thunder 18	Geneva	Sleet 1	Majorca	Rain 13	Reykjavik	Drzzl 5
Abu Dhabi	Sun 27	Belgrade	Rain 6	Chicago	Snow -1	Gibraltar	Shower 17	Malta	Fair 18	Rio	Thunder 27
Accra	Sun 32	Berlin	Sleet 2	Cologne	Sleet 2	Glasgow	Fair -6	Manchester	Fair 6	Rome	Fair 13
Algiers	Shower 17	Bermuda	Sun 24	Dakar	Sun 30	Hamburg	Sleet 2	Manila	Fair 31	S. Frsco	Shower 14
Amsterdam	Fair 4	Bogota	Thunder 20	Dallas	Sun 14	Helsinki	Snow -5	Melbourne	Sun 21	Seoul	Sun 8
Athens	Shower 18	Bombay	Thunder 33	Delhi	Sun 23	Hong Kong	Sun 21	Mexico City	Shower 24	Singapore	Thunder 32
Atlanta	Sun 15	Brussels	Fair 3	Dubai	Sun 27	Honolulu	Sun 26	Miami	Shower 28	Stockholm	Fair -2
B. Aires	Sun 22	Budapest	Shower 6	Dublin	Fair 8	Istanbul	Shower 14	Milan	Shower 8	Strasbourg	Snow 1
B.ham	Shower 4	C.hagen	Fair 2	Dubrovnik	Shower 12	Jakarta	Thunder 32	Montreal	Snow 1	Sydney	Fair 25
Bangkok	Fair 35	Cairo	Sun 22	Edinburgh	Fair 5	Jersey	Cloudy 8	Moscow	Snow -3	Tangier	Rain 17
Barcelona	Cloudy 11	Caracas	Sun 30	Faro	Shower 18	Johannesburg	Fair 22	Munich	Snow 0	Tel Aviv	Sun 22
						Karachi	Sun 29	Nairobi	Thunder 28	Tokyo	Fair 11
						Kuwait	Shower 20	Naples	Shower 15	Toronto	Snow 1
						L. Angeles	Cloudy 21	Nassau	Shower 29	Vancouver	Cloudy 10
						Las Palmas	Shower 24	New York	Shower 10	Venice	Cloudy 10
						Lima	Fair 25	Nice	Shower 12	Vienna	Snow 0
						Lisbon	Fair 16	Nicosia	Thunder 21	Warsaw	Snow 1
						London	Shower 5	Oslo	Sun -4	Washington	Shower 13
						Lux.bourg	Sleet 1	Paris	Cloudy 4	Wellington	Shower 17
						Lyon	Sleet 1	Perth	Sun 25	Winnipeg	Snow-11
						Madeira	Shower 21	Prague	Snow 2	Zurich	Snow 0

CONTRACTS & TENDERS

FINANCIAL TIMES

COMPANIES & MARKETS

Thursday December 4 1997

Week 49

INSIDE

Prince Al-Waleed eyes up Africa

During the recent falls in world markets Prince Al-Waleed of Saudi Arabia, perhaps one of the world's most successful bargain-hunters, drew on a cash reserve of, he says, $3bn, and went on a buying spree. After a recent tour of 13 African countries, where 30 diverse projects are being considered, he seems set to invest more in the continent. Page 21

Daihatsu pursues feline appeal

A car decorated with a cartoon cat is being launched by Daihatsu, the maker of mini-vehicles, to attract female buyers. A special version of the Mira Moderno model will feature images of 'Hello Kitty', a cat with a red ribbon. The mascot has been one of Japan's best-selling characters since its introduction by Sanrio, a toymaker, in 1974. Page 18

Networking sector in crossed lines

The networking equipment sector, which has grown as inexorably as the internet, seems to have its lines crossed. 3Com and Cabletron, two of the top five networking companies, gave profit warnings on Monday. But it would be too easy to say the industry is past its peak. Page 16

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 26

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Ava Alg Hndls	449.5	+	22.5	Arjomari-Prx	1634	+	146
Bowe Systec	54	+	6	Lucia	55.0	+	4.5
Hochtief	79.5	+	5.2	**Falls**			
Zanders Feinpp	140	+	10	Aurea	80.9	−	10.1
Falls				Baccarat	450	−	90
Babcock-BSH	111	−	9	Bqe Reunion	326	−	43
Heritz Intl	162	−	13	Mille Amis	37.00	−	7.95
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
BB&T	62⅞	+	6¼	Dia Kensetsu	345	+	50
Choicepoint	38¾	+	3½	Japan Resistor	182	+	30
Zeigler Coal	18⅜	+	2⅜	Nagahori	305	+	55
Falls				**Falls**			
Natl Semicon	29⅜	−	2¼	Francis Macros	159	−	80
Solectron	31¾	−	6	Julya	101	−	20
Total Sys Svcs	25½	−	2⅛	Tokyo Isuzu	263	−	60
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				**Rises**			
Heath (S)	147½	+	23½	Bank East Asia	18.55	+	0.40
Holliday Chem	236½	+	41½	Great Eagle	12.05	+	0.40
Watmoughs	287½	+	90	Guoco	21.00	+	1.75
Falls				**Falls**			
Pittards	53½	−	18	Amoy Props	6.85	−	0.25
Tams (J)	32½	−	11½	Chen Hsong	3.25	−	0.15
VCI	115½	−	77	China Res Ent	17.50	−	0.65
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				**Rises**			
Cognos	29.5	+	2.85	Deves Ins	34.00	+	7.75
Pendaries Pet	14	+	3	Distar Elec	19.00	+	4.25
Prudent Steel	16.75	+	1.8	**Falls**			
Falls				Int Far East	14	−	6
Delrina	35.5	−	1.6	Rockworth Pub	27.50	−	11.75
Mackenzie Inv	26.0	−	1.6	Sya Mue Kong	34.75	−	14.75
Teck A	20.15	−	1.35	Thaitrung Un	28.75	−	12.00

New York and Toronto prices at 12:30.

Yamaichi clients pull out $93bn

Run on assets could hinder broker's sale

By Gillian Tett in Tokyo

In one of the biggest runs ever seen in Japan, investors have withdrawn securities worth Y12,000bn ($93.2bn) from Yamaichi Securities, which collapsed late last month.

The scale of the withdrawals from Japan's fourth-largest broker, which emerged yesterday, could make it much harder to find a buyer for Yamaichi's domestic operations. Customer assets have fallen to Y11,391bn from Y23,960bn in early October.

One western banker, who had previously considered collaborating with the group, said: "This shows Yamaichi is a very damaged franchise. I think the chances of a buyer now are low."

However, Philip Dunne, managing director of DLJ Phoenix, the corporate adviser managing the sale, insisted a sale was still possible. "We anticipate that should a quality foreign or domestic firm pick up a substantial portion of the business, there would be a good prospect of customers returning to the group."

DLJ Phoenix is conducting discussions in Tokyo with potential buyers, including western investment banks but no deals have emerged so far.

Credit Suisse First Boston, the Swiss investment bank, yesterday refused to comment on market rumours that it was interested in part of the group. "We are not denying or confirming this," it said.

Some observers closely involved in the process have also suggested that Morgan Stanley, the US investment bank, might be interested. However, Thierry Porté, head of Morgan Stanley in Japan, yesterday said his group was not "actively" seeking to purchase Yamaichi.

Nevertheless, the US investment bank has decided to provide prices for foreign bonds, such as dual currency instruments, that Yamaichi underwrote as lead manager. The move is intended to help the broker smoothly transfer its business, added Mr Porté. "We would encourage other foreign firms to do the same," he said.

Other institutions, such as Yasuda Trust Bank, are also facing a flood of customer withdrawals amid rising public concern about the health of Japan's banks and brokers.

Government officials insist these withdrawals do not pose a serious threat to other groups. However, the events have triggered a sharp rise in the number of applications to open accounts at foreign financial institutions and at stronger Japanese banks, such as the Bank of Tokyo-Mitsubishi, the country's largest.

Customer deposits at BTM rose by Y450bn – or about 3 per cent – last month alone, it has emerged. Sumitomo and Sanwa banks have also seen sharp rises.

Asian model R.I.P., Page 12

Late bid by WestLB for suspended Thai bank

By Ted Bardacke in Bangkok

Westdeutsche Landesbank, Germany's biggest public sector bank, is making a last minute attempt to take over Finance One, Thailand's largest suspended finance company, which may be liquidated by the Thai government next Monday.

The WestLB bid is a response by senior creditors to a plan to take over Finance One presented last week by CS First Boston. This would have seen CS First Boston get its credits to Finance One repaid before other creditors.

Thai authorities are scheduled to announce the fate of 58 suspended finance companies on December 8 and have reportedly already decided which ones will be allowed to reopen, based on rehabilitation plans submitted five weeks ago. Bankers said they had been assured by finance ministry officials that the WestLB plan would be considered, partly because it was backed by the International Finance Corporation, the private investment arm of the World Bank.

The new plan involves a $50m investment in Finance One by WestLB, with a further $50m available on a standby basis from senior creditors. WestLB will bring in $21m in new investment and $29m of conversion of debt into equity.

Other senior creditors would convert an additional Bt5.7bn ($136.5m) of debt into equity. The plan also assumes that Thailand's central bank, with up to Bt50bn in outstanding loans to Finance One, would end up with a 33 per cent stake in the company by converting debt into equity.

The central bank has yet to say whether it is prepared to swap debt into equity at any of the suspended companies. But WestLB and other bankers said the central bank should support the plan because it would bring in a credible foreign partner with new capital to reopen the company and achieve a level of recovery for creditors equivalent to 60 per cent of the net present value of their outstanding loans to Finance One.

Bankers said the CS First Boston plan would see creditors recover only 20-40 per cent although the Swiss-US bank would recover more by repaying Finance One's eurobonds, half of which are thought to be owned by CS First Boston.

Canadian developer takes over Chicago skyscraper

By Scott Morrison in Toronto

TrizecHahn, the Canadian property company, has acquired effective ownership of the Sears Tower in Chicago by taking over a second mortgage on the building at a discount price of US$70m.

The company, the property vehicle of Peter Munk, who built Barrick Gold into one of the world's largest gold producers, will also assume a first mortgage obligation of $734m and buy an adjacent parking garage for $40m.

TrizecHahn, which took control of the 110-storey tower from AEW Partners, will not have titular ownership, for tax purposes. But it will take over property management and leasing at what until recently was the world's tallest building.

TrizecHahn said the deal gave it control of the tower at a 50 per cent discount to the replacement cost.

The Sears Tower may be well-known, but it has brought little in the way of financial prestige in the recent past. Though it is 91 per cent occupied, rents are about 40 per cent below market prices as many leases were signed when the local market was in a slump.

The expiry of leases over the next few years offers the company "exceptional potential" in an improving office market, said Casey Wold, president of TrizecHahn Office Properties. As with past acquisitions, the Sears Tower transaction will allow the company to improve returns through aggressive property management.

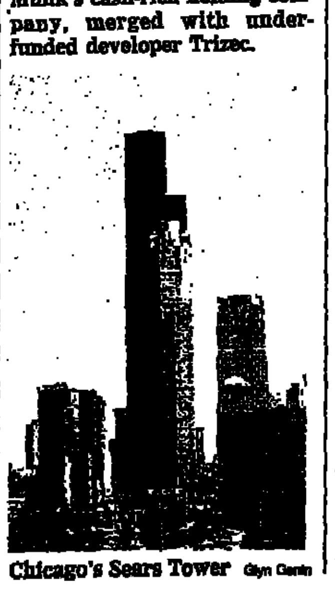
The deal is the latest in a series of acquisitions by TrizecHahn totalling $1.4bn this year. It takes the company a step closer to its goal of becoming a leading global property firm.

TrizecHahn expects to invest an additional $1bn-$2bn in acquisitions and development projects in 1998. The Chrysler Building in New York could be the company's next acquisition. However, some industry analysts suggest the US property market may be close to peaking.

The company is expected to begin constructing office buildings in Toronto and Calgary in the next few months and it has several shopping centre and entertainment development projects planned in the US.

Mr Munk said he was looking for joint-venture partners with whom to acquire or develop mixed use, office and entertainment projects in east Asia and South America.

TrizecHahn was formed late last year when Horsham, Mr Munk's cash-rich holding company, merged with under-funded developer Trizec.



Chicago's Sears Tower Glyn Genin

Acquiring hundreds of films, such as When Harry met Sally, from Crédit Lyonnais will treble PolyGram's film catalogue

PolyGram agrees movie deals

By Alice Rawsthorn in London

PolyGram, the Dutch entertainment group, has agreed terms to acquire *The Graduate*, *Blue Velvet*, *When Harry met Sally* and hundreds of other films which belonged to Crédit Lyonnais, the troubled French bank, for $225m.

It has also clinched a production deal with Ridley and Tony Scott, the British brothers who have directed a string of Hollywood hits including *Blade Runner*, *Thelma and Louise* and *Crimson Tide*. The Scotts will supply up to 15 films for PolyGram over three years.

PolyGram, one of the world's largest record companies with acts such as U2, Hanson and Sheryl Crow on its roster, has invested nearly $900m in a six-year-old attempt to establish a European-owned rival to the Hollywood movie studios.

In spite of box office successes such as *Bean*, *Fargo* and *Four Weddings and a Funeral*, PolyGram's film subsidiary is still lossmaking. The acquisition of the Crédit Lyonnais library and the Scott deal is an important step following the group's unsuccessful bid for MGM-UA, the US movie studio, last year.

The Crédit Lyonnais library, including 1,051 pictures that came into its possession during an ill-fated foray into Hollywood in the early 1990s, was put up for sale in August by Consortium de Réalisation, an organisation formed by the French government to sell some of the bank's assets.

Film catalogues come on the market so rarely that PolyGram, 75 per cent owned by Philips, the Dutch consumer electronics concern, faced stiff competition from rival bidders, including Walt Disney and 20th Century Fox.

The only other substantial film library currently available is that of Ciby 2000, the film company owned by Bouygues, the French construction group. The Ciby sale should be concluded shortly.

PolyGram, advised by Bannon & Co, the Beverley Hills-based associate of Société Générale, the French banking group, expects to conclude the Crédit Lyonnais library deal early next year, subject to the agreement of the French and US governments.

The acquisition will treble the size of PolyGram's 500-strong film catalogue. The group has long been anxious to augment its film library to exploit the market for selling film rights to broadcasters.

PolyGram has also been trying to increase its film production capacity to supply its distribution network.

The agreement with the Scotts gives PolyGram "first look" rights to the four or five films made each year by Scott Free, the brothers' production company.

Rescue plan delay, Page 3

Hambros close to selling corporate lending operation

By George Graham in London

Hambros, the investment banking group, is close to an agreement on the sale of its corporate lending activities with Générale de Banque of Belgium.

But discussions with other banks could lead to the sale of a larger part of the Hambros banking business.

Hambros, which recently appointed Schroders to advise it on how to improve its performance, yesterday confirmed it was in discussions with several companies.

"A number of companies have expressed interest in acquiring part or all of the activities of Hambros Bank."

The company said yesterday the discussions did not involve Hambro Countrywide, Hambro Insurance Services, the private equity investment business, or Guinness Flight Hambro Asset Management. There was "no consideration of a potential offer for Hambros plc".

Générale de Banque said yesterday its talks were still at a preliminary stage and only concerned a small part of Hambros' activities.

But other banks, thought to include Royal Bank of Canada, Investec Holdings of South Africa and Société Générale of France, are also understood to be interested in larger portions of the business.

Besides the units which it said were specifically excluded from any discussions, Hambros includes private banking, corporate finance and a unit focusing on the Private Finance Initiative.

Perhaps most attractive to other investment banks is a successful bond business with specialities in Australian and New Zealand dollars and South African rand.

Getting rid of the £930m ($1.5bn) corporate loan book would be unlikely to make Hambros a profit, but the removal of overheads and release of capital would go a long way towards addressing its profitability problems.

The banking group cut staff from 1,930 two years ago to 1,413 today, but is still dogged by a cost base which some analysts estimate to be about £30m a year too heavy to allow any reasonable return.

Depending on the precise terms of any deal, it could leave Hambros with a more narrowly focused investment banking business capable of making an adequate return on capital.

But the group has come under intense pressure from large institutional investors to improve its performance. They will be hard to convince that a limited disposal goes far enough.

Générale de Banque has been expanding in the UK, targeting UK companies with the argument that they will need a truly European bank once the euro has been introduced. Adding Hambros' corporate lending business would give it a relatively quick route to expansion.

Hambros' statement was released just before the stock market closed in London, and its share price, which had risen sharply on Tuesday, closed 1½p lower at 267p.

AMERICAS NEWS DIGEST

Biogen in $130m pact with Merck

Biogen, one of the largest US biotechnology companies, has announced a $130m collaboration with Merck, the US pharmaceuticals group. The deal gives Merck worldwide marketing rights to a promising new compound for asthma drugs, and Biogen will develop the same compound for use in the treatment of multiple sclerosis. Biogen will receive "escalating double-digit royalties" on any product Merck brings to market using the technology.

The deal is a boost for Biogen. It collects about $150m a year in royalty payments for products discovered in the early 1980s, but that revenue stream will slow as patents begin to expire in 2000. Merck will launch clinical trials for the compound next year, and Biogen hopes to begin clinical trials for multiple sclerosis in 1999.

Biogen will receive $15m up-front, with the remainder of the sum paid as the company reaches pre-set scientific milestones. *Victoria Griffith, Boston*

■ STEEL

Sivensa posts 30.8% decline

Siderurgica Venezolana, the Venezuelan steelmaker, posted a net profit of $37.8m for the year ended September 30, down 30.8 per cent from the previous year. Net sales were $758m, up 16.3 per cent from 1996. Sivensa also reported an operating profit of $75.5m, up 103 per cent. No fourth-quarter figures were provided.

Sivensa is the country's largest private sector exporter, selling raw materials, semi-finished and finished products to the steel, construction, automotive, agriculture and petroleum industries. *AP-DJ, Caracas*

■ CANADA

Royal Bank lifts dividend

Royal Bank of Canada has boosted its quarterly common share dividend to 42 Canadian cents a share from 39 cents. The bank said it benefited from a strong Canadian economy and healthy capital markets in the latest fiscal year. It had solid growth in personal and small business lending, and good performance from fee-based businesses such as mutual funds, global private banking, securities custody, investment management, retail brokerage, and investment banking and trading. The bank also said it had gained market share in mortgages, personal loans and commercial loans. *AP-DJ, Toronto*

■ THRIFTS

Earnings slip in third quarter

Third-quarter earnings of US thrifts – non-bank institutions that receive deposits and make loans – fell 20 per cent from the levels recorded in the second quarter. The decline was mostly the result of one-time charges from three large industry mergers, the Office of Thrift Supervision (OTS) said.

The 1,238 thrifts regulated by the OTS earned $1.35bn in the third quarter, down from $1.69bn in the previous three months. Earnings in the third quarter of 1996 totalled $1.58bn, excluding a one-time charge to recapitalise their deposit insurance fund.

Return on assets, a key measure of profitability, fell to 0.71 per cent in the third quarter from 0.89 per cent in the preceding period. The fall also was related to the acquisition charges, the OTS said. *AP-DJ, Washington, DC*

AST cuts 1,120 staff as market share falls

By Nicholas Denton in San Francisco

A US computer making division of Samsung, one of South Korea's troubled conglomerates, is to make redundant 1,120 employees and abandon many of its ambitions.

AST Research, which Samsung purchased in April for about $170m, was once regarded as a challenger to Compaq in the personal computer business.

However, the company's US market share has fallen from 3.9 per cent in 1994 to 2.4 per cent in 1996, according to Dataquest – despite pioneering the PC costing less than $1,000.

AST, which made its name in the retail computer market, said it would limit its activities to specific regional markets and customers such as small businesses.

"Looking squarely at our recent performance in the context of the competitive landscape for PCs, our long-term goal can no longer be simply to sell more PCs to more customers," said S.T. Kim, chief executive.

Analysts said economic turmoil in South-East Asia was likely to have diminished Samsung's capacity to prop up AST, which reported a $170m loss in the last quarter before Samsung acquired the shares it did not already own.

The devaluation of the South Korean currency and the bankruptcy of some of the country's leading conglomerates has had no direct bearing on AST's redundancies, where staff numbers are set to fall 37 per cent.

But the company has been hit by the decline in margins in the PC manufacturing industry, and the most efficient producers have gained market share at the expense of smaller competitors. The industry is increasingly dominated by Dell, Compaq Computer, International Business Machines and Hewlett-Packard.

Energipe sold at 97% premium

By Jonathan Wheatley in São Paulo

The fast-moving privatisation of Brazil's electricity industry advanced yesterday with the sale of Energipe, a distributor in the north-eastern state of Sergipe, for R$577.1m (US$520m), a premium of 97 per cent to the minimum price of R$292.3m.

The buyer is Cataguazes-Leopoldina, a family-controlled distributor operating in the states of Minas Gerais and Rio de Janeiro. Antônio Previtali, financial director, said the company was in talks with CMS of Michigan about a possible partnership.

"We didn't reach agreement before the sale, but they called us afterwards to say they are still interested," Mr Previtali said, adding the price paid reflected estimates of potential earnings from a growing market and room for cost savings.

Energipe is the sixth distributor to be sold in as many weeks. The sales have attracted large premiums, underlining the potential for growth in an industry which has suffered from underinvestment and inefficiency.

Last week, Cemat, the electricity distributor in the state of Mato Grosso, was sold for R$391.5m to a consortium led by Grupo Rede, a Brazilian utility. The premium paid was 21 per cent above the minimum price.

The sales continue on December 12 with Cosern, a distributor in Rio Grande do Norte. Analysts expect total revenues from electricity privatisation to reach $45bn by the end of the decade.

"These are once-in-a-lifetime opportunities to enter the Brazilian market," said Emanuel Dutra at Deutsche Morgan Grenfell in São Paulo.

Recent sales, which have taken place against a background of falling share prices and turmoil on financial markets, showed investors were taking a long-term view of Brazil's potential.

Nevertheless, Mr Dutra said Cataguazes-Leopoldina's bid was "not justified" by Energipe's earnings potential and reflected the buyer's determination to win the auction after its unsuccessful bid for Cemat.

"Cataguazes-Leopoldina is a small company that needs to gain scale to survive in an increasingly competitive market," he said. The purchase would almost triple its electricity sales.

If CMS reaches agreement with Cataguazes-Leopoldina it will follow a string of foreign utilities which have entered the Brazilian market. Last year, a consortium including Chilectra of Chile and Endesa of Spain bought Cerj in Rio state; and Electricité de France, Houston Power and AES of the US took part in a consortium that bought Light, another Rio distributor.

Convergence heralds crossed lines

Mixed results from network equipment groups as vertical integration looms

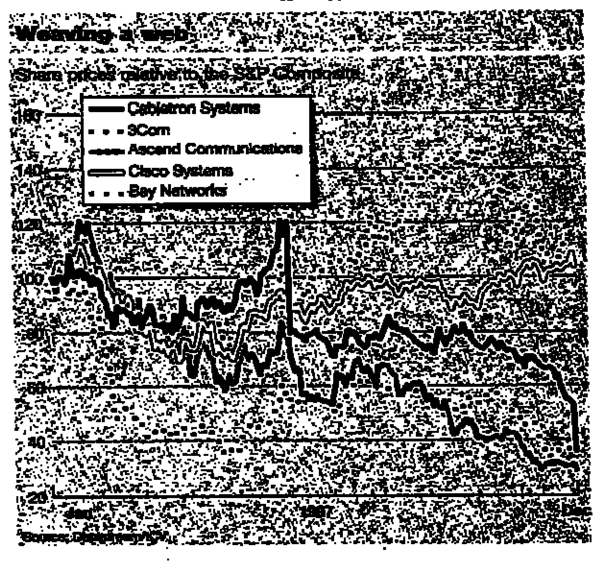
The networking equipment industry, which has until recently grown as inexorably as the internet itself, appears to have got its lines crossed.

Dashing market expectations, 3Com and Cabletron Systems, two of the leading five networking companies, made profit warnings on Monday. 3Com said that in the quarter just ended it would show only a slight profit. Cabletron projected 8-12 cents of earnings per share compared with 39 cents forecast on average by investment analysts polled by First Call.

Even before Monday's announcement, 3Com was down 56 per cent from its year high and by yesterday midday was off 60 per cent; Cabletron, although 66 per cent down, has performed better than Ascend Communications, another manufacturer, which has plunged 70 per cent from its peak.

But it would be too easy to conclude that the industry, which has in the past five years typically enjoyed revenue growth rates of 30-50 per cent as companies and carriers have built data networks, is past its peak.

Most of the reasons for the earnings disappointments are specific to the companies. "I don't think that there is a common theme," says Paul Johnson, networking analyst with BancAmerica Robertson Stephens.



3Com blames the lack of an internationally accepted standard for fast modems capable of transmitting data over ordinary telephone lines at 56,000 bits per second. Its main problem was excess inventory, the slimming of which by three to five weeks worth of production, has depressed reported revenues in the quarter just ended.

Cabletron cites delays in US federal government orders and weakness in other domestic markets.

The final set of excuses comes from Ascend, which has noted slowing international demand, and deals between providers of internet service, resulting in a rationalisation of orders.

The notion of some industry-wide malaise is undermined by the performance of Cisco Systems, by far the largest company in the sector with a market capitalisation of $59bn, and Bay Networks.

Cisco, which leads in providing the routers which direct traffic over corporate networks, has consistently exceeded expectations. Its shares, up 91 per cent since May, are close to their all-time high. "Complacency is the only real threat," says Mr Johnson. And Bay, although its share price is 34 per cent below its peak, has won rave reviews for a new device which by some measures directs traffic more rapidly than Cisco's flagship product.

Despite these varying fortunes, there are some common factors which help explain the recent disappointments to investors in the sector.

"Although companies don't like to give one supplier the control that Microsoft, for instance, has in other sectors, there is a tendency for them to buy from fewer suppliers," says David House, chief executive of Bay Networks.

That has encouraged vendors, largely through acquisitions, to broaden their product range, to offer a one-stop shop for networking gear.

Thus 3Com acquired US Robotics and Ascend bought Cascade Communications earlier this year. Deals such as these have brought the larger networking companies, which earlier specialised in particular equipment such as network interface cards or routers, into more direct competition with each other.

As well as prompting price cuts, these combinations have been difficult to execute. For instance, 3Com's problems owe much to the different inventory systems in place at the parent company and the US Robotics business it acquired.

Moreover, as the personal computer, telecommunications and networking industries converge, new competitors have emerged. One example is Intel, the computer chip maker, which has branched out into network interface cards.

Nevertheless, the spate of recent deals, however destabilising in the short run, will create companies better able to compete in this enlarged market, selling not just to businesses but to the telecom carriers and consumers that respectively provide and use internet access.

"It is not the fact that the future of the networking industry is darker than we thought," says Eric Benhamou, chief executive of 3Com. "What is happening is a transition from a high-end, well-understood enterprise market to a much broader market. We are going from a $15bn-a-year industry to a $50bn-a-year industry."

In so far as that is true, the recent twinges in networking stocks are – like the occasional blackouts on the internet and the America Online network – growing pains.

Nicholas Denton

Heinz surges as O'Reilly quits

By Richard Tomkins in New York

Shares in H. J. Heinz, the US food company, surged $1⅝, or 3 per cent, to a record high of $54¼ in early trading yesterday as Wall Street digested the implications of Tony O'Reilly's decision to step down as chief executive.

Late on Tuesday, Heinz announced Mr O'Reilly, 61, would be succeeded by William Johnson, 48, the company's president and chief operating officer, at the end of the fiscal year next April. Mr O'Reilly will remain non-executive chairman until September 2000.

Yesterday, Bear Stearns, the Wall Street securities house, upgraded Heinz to "buy" as industry-watchers speculated Mr Johnson would move more aggressively to cut costs and increase earnings.

Terry Bivens, a Bear Sterns analyst, said Mr Johnson was "an extremely aggressive and results-oriented" executive with a reputation for having turned Heinz's StarKist tuna and pet food units into two of its best performing businesses.

"I think he will be much more action-oriented," Mr Bivens said. "Tony O'Reilly has obviously had a wonderful run, and he's a great fellow, but I think everybody realised it was time for a little new blood."

Mr Bivens said yesterday's increase in Heinz's stock price, which came on top of a $1¼ rise the previous day, also reflected the elimination of worries that Mr Johnson would leave if Mr O'Reilly waited too long to hand over control.

Last year, David Scully, long regarded a potential successor to Mr O'Reilly, left the company after 22 years to become a principal of Blackburn, a New York investment firm.


Good run: Tony O'Reilly in his rugby football days ALLSPORT

Mr O'Reilly, a former rugby star with a reputation as a larger-than-life figure, was unavailable for comment yesterday because he was on his way to London to be inducted into a newly created International Rugby Hall of Fame.

He has been Heinz's chief executive for 18 years, during which the company's market capitalisation increased from $900m to $19bn. But the stock has underperformed the wider market over the past five years, partly because of the poor performance of the company's Weight Watchers division.

Mr O'Reilly has also been criticised for his pay – he received $2.9m in cash and kind in the last financial year, plus 750,000 stock options – and for chairing a board with an unusually high proportion of company insiders and friends.

Institutional investors, particularly TIAA-Cref, the college teachers' pension fund, have been putting strong pressure on Heinz to reform its board, but Heinz indicated yesterday it had no plans to do so.

See Lex and Observer

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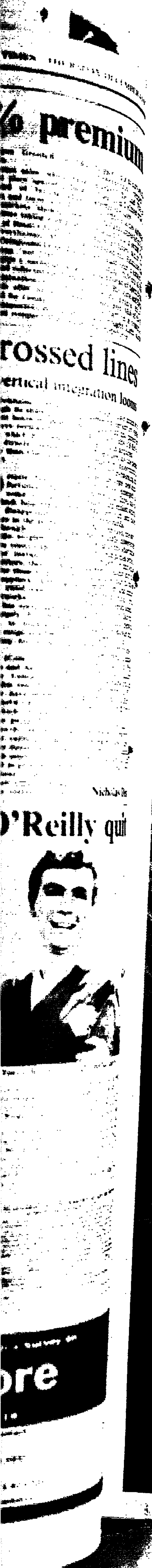
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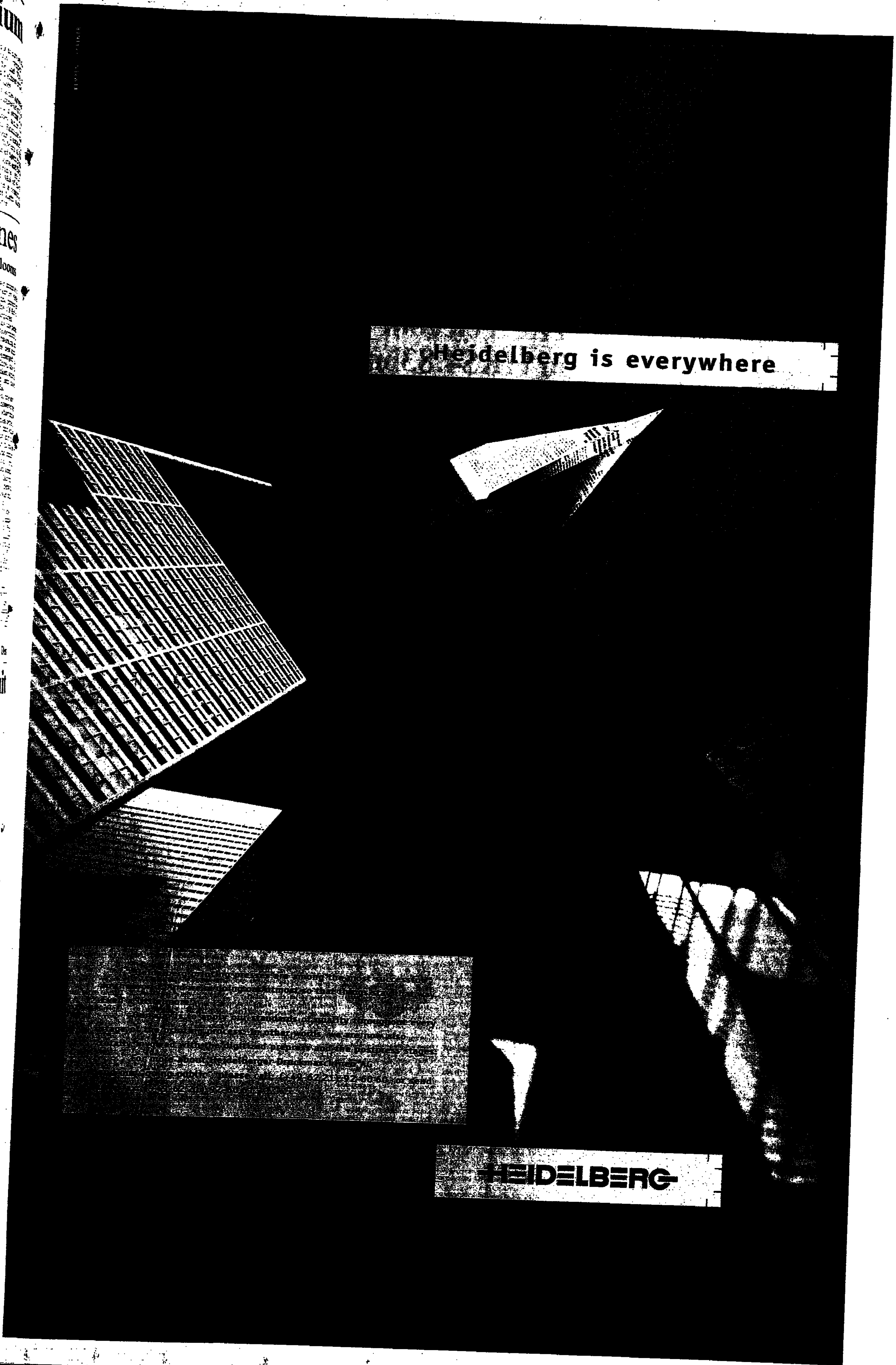
O'Reilly quit



COMPANIES AND FINANCE: ASIA-PACIFIC

CNAC plans Hong Kong listing

By John Ridding in Hong Kong

China National Aviation Company (CNAC), the commercial arm of China's aviation regulator, is to raise HK$620m (US$80m) through a share placement and a listing on the Hong Kong stock market, Peregrine Capital announced yesterday.

Along with the planned share issue by Tianjin Development, the announcement marks a resumption of Hong Kong listings by mainland industrial groups – although at reduced valuations. CNAC and other mainland-backed companies had postponed listings after sharp falls on the territory's stock market.

Peregrine Capital said it had placed shares worth HK$552m with institutional investors yesterday. Francis Leung, managing director of Peregrine International Holdings, the Hong Kong-based investment bank, described the issue as a "great achievement" given the market conditions. "This issue has been very well received in the institutional marketplace and the placing closed well oversubscribed," said Mr Leung.

The next phase in the company's listing will be the launch of the IPO next week. Combined with the placement, the total proceeds will be HK$620m, far lower than initial forecasts of more than HK$1bn. The total number of shares to be issued, including an earlier tranche for strategic industrial investors, remains the same, representing about 25 per cent of CNAC's capital. But pricing has been reduced as market conditions are weak.

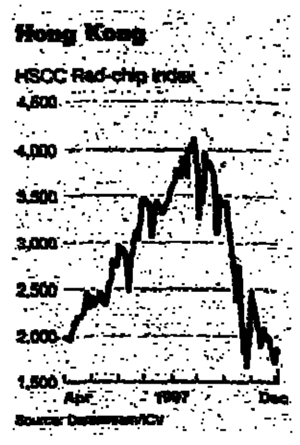
While Peregrine was the sole underwriter for the placement with Hong Kong and international institutions, the IPO will be jointly sponsored with BZW (Asia).

The deal represents a welcome boost for both investment banks. Peregrine announced last week that it was cutting its 1,750 workforce by 275 as a result of the regional financial turmoil. BZW (Asia) is seeking a buyer following the decision by Barclays of the UK to sell much of its investment banking operations.

Shares in the placement have been issued at HK$1.63 each. According to Peregrine, that represents a fully diluted price earnings multiple of 12.64 times prospective 1997 earnings. Original proposals for the IPO had set a price of between 14 and 18 times earnings.

Investment analysts said the lower pricing reflected a pragmatic stance by CNAC. "Obviously red chips are not going to command the kind of multiples they did before," said the China analyst at one US investment bank. "But it is encouraging to see that they are willing to lower their sights to come to the market."

Red chips and H-shares, respectively the Hong Kong arms of mainland business groups and Hong Kong listings of mainland enterprises, are an important source of funding for Chinese industry. This year they have raised more than US$8bn.



However, the fall in the Hong Kong stock market, triggered by regional currency crises and the defence of the territory's dollar, raised fears of a protracted delay in new issues.

HK Telecom in HK$4.83bn mobile buy

By Louise Lucas in Hong Kong

Hongkong Telecom, the territory's dominant carrier, will pay HK$4.83bn (US$624m) to take over Pacific Link Communications, Hong Kong's fourth biggest mobile telephone operator.

The deal adds two networks and 265,000 subscribers to Hong Kong Telecom CSL, Hongkong Telecom's own cellular arm. It allows CSL to become the first operator to offer fully global roaming.

Analysts said the price was fair, as it gave Hongkong Telecom extra spectrum and an existing network and subscriber base.

This puts it on an equal footing with Hutchison Telecom, which also runs three different technology networks, and enables Hongkong Telecom to regain its top ranking for numbers of subscribers in the territory.

Investors also welcomed the move, pushing Hongkong Telecom's share price 1.3 per cent higher to close yesterday at HK$15.70. The share price of First Pacific, the Asian conglomerate that controls Pacific Link, was unchanged at HK$5.50, in line with the market's performance.

First Pacific owns 65 per cent of Pacific Link and the balance is held by Vodafone Group of the UK. Pacific Link had been considering a stock market listing, although the move was shelved because of the turmoil on Asian markets.

Manuel Pagilinan, managing director of First Pacific, said the company's exit from the Hong Kong telecoms sector was a result of heavy competition. "First Pacific has taken the view that it will focus its telecommunications efforts on markets where it can be the dominant player or a solid second operator.

"It would clearly be difficult for us to achieve that status in Hong Kong, where the local mobile communications market is extremely competitive and consolidation is necessary," he said.

The sale will leave First Pacific with a hole in earnings next year of an estimated US$30m, or 12 per cent of bottom-line earnings. Nikko Securities points out that selling a Hong Kong business will, by default, increase its exposure to the stricken economies of south-east Asia.

After retiring Pacific Link's debt, First Pacific will receive about HK$2.4bn, as well as a further HK$350m from the repayment of a facility extended to the mobile arm. Analysts say the cash will refuel speculation that First Pacific is to buy into San Miguel, the Philippines brewery.

However, it is likely the group's first priority will be to inject more equity into Smart Communications, the Philippines telecoms company in which it has a 52 per cent stake. Smart's planned listing has been repeatedly shelved in the face of the Asian markets turmoil. Analysts expect existing shareholders to make good the funding.

No excuses left to dodge calls

Nippon Telegraph and Telephone, Japan's largest telecommunications company, has developed a wristwatch phone which the company hopes to have on the market within two years, Reuters reports from Tokyo.

The phone weighs 45 grammes and its maker claims it is the smallest in the world.

It features an antenna and a newly developed power-economy chip. The phone can also be dialled through voice recognition technology.

Daihatsu taps feline appeal

By Michiyo Nakamoto in Tokyo

A car bedecked with a cartoon cat is being launched by Daihatsu, the maker of mini-vehicles, in an attempt to woo Japanese women, who have always had a soft spot for cute things.

A special version of the Mira Moderno model will feature Hello Kitty, the cat with the red ribbon, on its front grille, wheel caps and back doors. Drivers with a Kitty fixation can see their favourite cat on the front instrument panel, the seat covers, and the floor mats. Even the head of the car key will feature the feline's face.

The launch of the cat car next month comes amid one of the worst seasons for the Japanese car industry in recent memory. Car sales in November fell 23.5 per cent, the largest drop since the oil shock of 1973, the year before Hello Kitty was born.

Domestic car sales have been battered by a consumption tax increase in April and poor consumer sentiment, which has been aggravated by failures in Japan's financial industry.

Strong export markets have so far enabled many Japanese carmakers to make up for the drop in domestic demand, but analysts expect the fall in Asian demand could mean a fall in domestic production for the first time in four years.

Daihatsu, Japan's second largest mini-vehicle maker which is affiliated with Toyota, enjoyed strong exports to Europe but suffered a 15 per cent decline in unit sales in Japan.

Cool cat

The company is hoping its Hello Kitty car will lift its fortunes. The mascot has been one of the longest-selling character goods in Japan since it was brought into the world in 1974 by Sanrio, a toy and character goods maker. It features on everything from children's underwear and Christmas stockings to personal handy phones.

A recent revival in its popularity among young women, who grew up with the cat, encouraged Daihatsu to feature Hello Kitty. Women buyers account for more than 60 per cent of the market for small cars with an engine capacity of 660cc.

The cat's renewed popularity has also lifted profits at Sanrio. Operating profits in the first half of the year rose nearly four times to Y6.8bn ($53m), supported by sales of Hello Kitty goods.

Daihatsu aims to sell 800 of the cars a month at a price of Y869,000. In Japanese, the numbers 8,6,9 sound like the first three characters for Hello Kitty.

MTNL successful in $358m GDR issue

By Krishna Guha in Bombay

Mahanagar Telephone Nigam, the Indian domestic telecoms company, yesterday announced it had successfully completed a $358m issue of global depository receipts – in spite of the fall of the government and a steep slide in the value of the rupee.

The issue is three times subscribed, allowing MTNL's investment bankers to price the GDRs at $11.958, slightly higher than most analysts expected.

It is a sharp reversal of fortunes for an issue which has been hit by one external crisis after another. When India's government fell last week, dragging down the rupee and the country's stock markets, many analysts believed the MTNL issue would have to be abandoned.

Completion means that India's GDR programme is at least partly back on track after an earlier planned $800m issue by Gas Authority of India was abandoned in the face of turmoil in international markets.

A. V. Gokak, chairman of India's telecom commission, said the government was "very pleased", adding that the offering "demonstrates the continued attractiveness of India as an investment destination and investor confidence in the Indian telecommunications sector".

The state will receive $239m from the sale of 40m MTNL shares, which will help fill a large hole in state finances. MTNL will receive the balance – $119m from an initial public offer of 20m shares – which will contribute to a $3.25bn five-year investment programme.

MTNL said it had received subscriptions from 500 institutional investors from 15 countries including a late wave of interest from the US, where investors had earlier appeared lukewarm.

Analysts said that MTNL's investment bankers, Goldman Sachs, HSBC and Merrill Lynch, had "done a good job in tough circumstances". They added that the issue had been assisted by a modest recovery in the Indian market since the middle of last week.

Each GDR represents two underlying shares, pricing the issue at 1.18 per cent premium to yesterday's domestic closing price of Rs232.25.

However, the issue is still a fraction of the size envisaged when it was announced earlier this year. MTNL had hoped to raise more than $1bn from the sale of 100m shares, to be shared by the government and the company, which would have made it the biggest GDR issue in Indian history.

THE GERMAN PFANDBRIEF

Progress Report for Investors

The Euro and the German Pfandbrief

Outlook positive for Germany's largest fixed-income market

The recent announcement that the German government will convert its existing bond issues into the new European currency at the start of Phase III of European Monetary Union (EMU) has important implications for the German Pfandbrief market. Given that Pfandbriefe make up the largest individual bond market in Germany, issuers recognized very early that in order to maintain their competitiveness vis-à-vis the Bund market, it would be essential for benchmark Pfandbrief issues also to be redenominated in euros at the outset of monetary union. Although this would scarcely be practical for all outstanding issues – of which there are more than 16,000 – existing Jumbo and Global Pfandbrief issues will be redenominated in euros at the same time as redenomination in the new currency takes place in the Bund market.

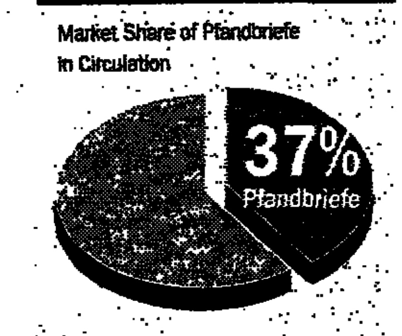
The critical by-product of this redenomination will be that investors in all participating EMU countries will no longer be exposed to currency fluctuations when buying German Pfandbriefe. For investors beyond the EMU bloc currency risks will also be diminished if not entirely eliminated.

Four decisive criteria

With currency considerations – and their inherent risks – therefore no longer of relevance to investors in those European economies participating in EMU, four factors will emerge as the key yardsticks by which institutions measure fixed-income investment opportunities in the "new" Europe. In broad terms, these will be credit quality, yield, liquidity, and familiarity with the issuer. The German Pfandbrief market has taken giant strides over the course of the last few years to ensure that issuers of Pfandbriefe more than adequately meet all these criteria, although the first of these, credit quality, has never been in doubt given that no issuer has ever defaulted in the history of a market which dates back well over a century.

The German Bond Market
End of August 1997

Market Share of Pfandbriefe in Circulation



DM 4.3 TRILLION

The track record of both Mortgage and Public Pfandbriefe aside, the security of the collateral backing Public Pfandbriefe is unparalleled. As Salomon Brothers repeated in its update on the market published earlier this year, "the collateral cover for Public Pfandbriefe consists of public-sector loans or *those guaranteed by the public sector.* Under the German federal system there is a constitutional obligation for mutual financial support between the AAA-rated federal government, the states, and the local authorities (Gemeinden). In terms of risk, the Public Pfandbrief collaterals are comparable with the quality of German government bonds."

Testimonials to the enduring credit quality of the Pfandbriefe as a substitute government bond have not only come from the investment banking community both in Germany and overseas. In the context of the new Europe that will take shape following monetary union, a strong endorsement of the Pfandbrief's quality has come from the European Central Bank (ECB), which has indicated that the bonds will be ranked among the private debt instruments eligible for lombard and repo transactions with the ECB as Tier 1 assets. This means that they will share the risk characteristics of EU government debt. In other words, within the context of EMU, German Pfandbriefe will not just be seen from a credit perspective as "Baby bunds". They will enjoy the same credit standing as sovereign issues from governments that will participate in EMU.

Given the inherent credit quality of German Pfandbriefe, the yield available to investors on these bonds has also always been viewed as rewarding. Traditionally, Pfandbriefe have offered a pick-up over Bunds of anywhere between 10 and 50 basis points.

The Jumbo market brings enhanced liquidity

Until recently, the German Pfandbrief market failed to meet the criteria demanded by many international investors in the areas of liquidity and familiarity with issuers. In the past two years, however, both of these shortcomings have been addressed with striking success.

Any doubts about illiquidity in the Pfandbrief market have for the most part been dispelled since the launch in mid-1995 of the Jumbo Pfandbrief market. While traditional Pfandbriefe were typically launched in modest denominations of between DM 50 and DM 300 million, and sold almost as private placements to long-term investors, Jumbo issues must be straight bonds worth at least DM 1 billion at launch. They must also be supported by a commitment from at least three market-makers to quote continuous two-way prices during trading hours.

Building a wider investor base

Probably the most notable characteristic of the Pfandbrief market over the last 12 to 18 months, however, has been the energy and inventiveness which Pfandbrief issuers have demonstrated in promoting their names – together with the *Pfandbrief instrument* – to investors outside Germany, in particular to those in Continental Europe who, following the launch of EMU, will cease to be seen as "international" investors.

In recognition of this, since 1996 a number of German issuers have been structuring Pfandbrief issues with foreign investors very clearly in mind. Following DePfa's launch of the first ever Global Pfandbrief issue in January 1996 – a DM 2 billion seven-year issue – DePfa itself and a number of other issuers have continued to target international investors through the launch of Global or Euro Asian Pfandbriefe denominated in D-Marks or – more recently – via Pfandbriefe denominated in other benchmark currencies. This year's highlights in this respect have included the first ever Pfandbrief issued in French francs – a Ffr 2 billion deal launched by Frankfurter Hypothekenbank Centralboden in March – and a US dollar Pfandbrief which raised $ 750 million for Rheinische Hypothekenbank (RHEINHYP) in June.

Jumbo Pfandbrief Issuers
As of November 12, 1997

Issuer	Number of issues	Total volume DM million	Share %
1. Allgemeine Hypothekenbank	18	29,250	13.47
2. DePfa-Bank	12	25,500	11.74
3. Hypothekenbank in Essen	15	24,500	11.28
4. Rheinische Hypothekenbank	10	17,500	8.06
5. Deutsche Hypothekenbank Frankfurt	11	15,250	7.02
6. Frankfurter Hypothekenbank Centralboden	7	11,500	5.30
7. Bayerische Vereinsbank	8	10,500	4.84
8. Westdeutsche Landesbank	5	10,250	4.72
9. Westfälische Hypothekenbank	6	8,500	3.91
10. Württembergische Hypothekenbank	6	8,200	3.78
11. Berlin-Hannoversche Hypothekenbank	4	8,000	3.68
12. DG HYP	4	6,500	2.99
13. Norddeutsche Landesbank	3	5,600	2.58
14. Deutsche Hypothekenbank Hannover	4	5,500	2.53
15. Landesbank Sachsen	4	5,500	2.53
16. Hypothekenbank in Hamburg	3	5,000	2.30
17. Hypo-Bank	3	4,500	2.07
18. Bayerische Landesbank	2	3,100	1.43
19. Nürnberger Hypothekenbank	3	3,000	1.38
20. Deutsche Girozentrale -Deutsche Kommunalbank-	2	2,500	1.15
21. Münchener Hypothekenbank	1	1,500	0.69
22. Rheinboden Hypothekenbank	1	1,500	0.69
23. Bayerische Handelsbank	1	1,000	0.46
24. BfG Hypothenbank	1	1,000	0.46
25. Dexia Hypothekenbank Berlin	1	1,000	0.46
26. Süddeutsche Bodencreditbank	1	1,000	0.46
Total Jumbo Pfandbrief Market	136	217,150	100.0

This process has gathered momentum in recent months. Hypothekenbank in Essen's most recent French franc Pfandbrief issue, which was launched in October, was so popular among French institutional investors that its original size of Ffr 500 million was increased to Ffr 650 million in response to the weight of local demand. The following week the bank expanded the international scope of the Pfandbrief market by launching the first bond of its kind denominated in Sterling, a £ 150 million seven-year bond.

New maturities to suit new investors

A further illustration of Pfandbrief issuers' ambitions to cultivate an investor base beyond Germany has been in the maturity structure of bonds issued in currencies other than D-Marks. With demand for long-dated paper very muted among German institutional investors, the lion's share of Jumbo Pfandbriefe issued to date has been accounted for by the shorter-dated bonds, with more than half of total issuance concentrated in the three to five-year maturity spectrum. However, when Frankfurter Hypo launched its first French franc issue in March 1997, the 12-year maturity was clearly tailored towards the specific requirements of the French investor base, with the issuing bank reporting that some 93 % of the bonds had been placed with French institutional investors.

Another issuer to launch a Pfandbrief with an unconventional 12-year maturity this year was DePfa, which *estimated that around 70 % of its 2009* bond was placed with institutions in France and the Netherlands.

Accessing euro-based investors has clearly been the main motivating force behind the recent succession of Pfandbrief issues in currencies other than D-Marks. A clear goal has been to enhance name recognition and acceptance of the issuing institutions.

JEX Index launched

Jumbo Pfandbrief market surges ahead

In light of the speed with which the Jumbo Pfandbrief market expanded following its official launch in mid-1995, it is perhaps unsurprising that the rate of issuance in the primary market has slowed in recent months. By the end of 1996, total issuance volume had *mushroomed to just over DM 120 billion,* and in the first week of 1997 alone more than DM 10 billion was issued in the primary market. Although this pace of new issuance could not be maintained since the early days and weeks of 1997, by mid-November there were a total of 136 Jumbo Pfandbriefe outstanding with a combined volume of DM 217.2 billion and an average size of just over DM 1.5 billion.

In spite of the slight deceleration in issuance during the second half of 1997, market commentators expect the Jumbo Pfandbrief sector to continue to expand rapidly over the medium term, with forecasts pointing to a market with a total value of as much as DM 300 billion by the beginning of 1999 – supported by growing international participation, rising liquidity, and a recognition of the importance of the Pfandbrief's eligibility for lombard and repo transactions with the ECB.

The launch of the JEX Index

A critical landmark in the development of the Pfandbrief market was passed on October 15 with the launch of the JEX Index, a real time index for *Jumbo Pfandbriefe.* The index was developed by the Deutsche Börse in collaboration with Reuters and the associations of Pfandbrief issuers, and is based on a synthetic portfolio of 30 Jumbo issues with maturities of between one and 10 years and carrying coupons of 6%, 7.5% and 9%. Modeled on the German government bond (REX) index, the new JEX Index and the performance index JEXP will substantially improve transparency in the Jumbo Pfandbrief sector enabling comparisons with the Bund market.

One day after the important launch of the JEX Index, the Deutsche Börse announced that it would also be introducing a new Jumbo Pfandbrief futures contract in 1998 which over the longer term will help to underpin increased liquidity in the market.

Although there has been some debate both within Germany and overseas about the viability of a futures contract for the Pfandbrief market, most participants will welcome its introduction, for two very clear reasons. First, an active derivatives market for Pfandbriefe *can only help to bolster liquidity* in the instrument across the board. Second, the boom in the Jumbo Pfandbrief market has taken place against a bullish background for international bond markets. Although a bullish scenario of low interest rates and low inflation remains broadly in place, any mechanism which offers investors a measure of any protection in the event of a sustained downturn in international fixed-income markets can only be beneficial over the longer term to all market participants.

A further by-product of the launch of the JEX Index and the futures contract for the Pfandbrief market will be the likely continued compression of spreads between German government bonds and the Jumbo Pfandbrief issues, which in turn will widen the spread between Jumbo and traditional Pfandbriefe. As of the start of November, Jumbo issues were offering a yield pick-up over the government curve of between 10 and 20 basis points, while spreads of traditional issues were understandably higher. This, combined with the increasingly diverse maturity range of Jumbo issues, now means that investors in the Pfandbrief market have an unprecedented spectrum of bonds from which to choose in constructing a well diversified portfolio of Pfandbriefe.

Germany's private mortgage banks on course for record issuing year

In the first nine months of 1997, Germany's private mortgage banks boosted total sales of Pfandbriefe by 21.8 % over the comparable year-earlier period to DM 213 billion. These figures suggest that for 1997 as a whole, total issuance will surpass the DM 221.8 billion record level achieved in 1996.

Of the DM 213 billion issued by end-September 1997, Public Pfandbriefe – issued to refinance loans to the public sector – accounted for DM 162.3 billion or 76 %. Mortgage Pfandbriefe – issued to refinance first mortgages on residential or commercial properties – accounted for the remaining DM 51 billion or 24 %. Roughly one-third of the total Pfandbrief sales in the first three quarters of the year were Jumbo Pfandbriefe.

Thanks in great part to Jumbo Pfandbriefe, the overwhelming majority of which are Public Pfandbriefe, the private mortgage banks have substantially boosted their competitiveness. Overall, Pfandbrief issuers account for the biggest segment of primary market activity in the entire German bond market.

GERMANY'S MORTGAGE BANKS

DEPFA-BANK, WIESBADEN
BAYERISCHE VEREINSBANK AG, MÜNCHEN
HYPO-BANK, MÜNCHEN
DEUTSCHE HYP, FRANKFURT
FRANKFURTER HYPOTHEKENBANK CENTRALBODEN AG, FRANKFURT
RHEINHYP, FRANKFURT
BERLIN-HANNOVERSCHE HYPOTHEKENBANK AG, BERLIN AND HANNOVER
DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG
HYPOTHEKENBANK IN ESSEN AG, ESSEN
BAYERISCHE HANDELSBANK AG, MÜNCHEN
ALLGEMEINE HYPOTHEKENBANK AG, FRANKFURT
WESTHYP, DORTMUND
WÜRTTEMBERGER HYPO, STUTTGART
HAMBURGHYP, HAMBURG
SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER
MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
NÜRNBERGER HYPOTHEKENBANK, NÜRNBERG
DEXIA HYPOTHEKENBANK BERLIN AG, BERLIN
RHEINBODEN HYPOTHEKENBANK AG, KÖLN
NORDHYPO BANK, HAMBURG
SCHLESWIG-HOLSTEINISCHE LANDSCHAFT HYPOTHEKENBANK AG, KIEL
BFG HYPOTHEKENBANK AG, FRANKFURT
LÜBECKER HYPOTHEKENBANK AG, LÜBECK
WL-BANK, MÜNSTER
WÜSTENROT HYPOTHEKENBANK AKTIENGESELLSCHAFT, LUDWIGSBURG
M.M. WARBURG & CO HYPOTHEKENBANK AG, HAMBURG

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Chairman's arrest hits NBM-Amstelland

By Gordon Cramb in Amsterdam

Shares in NBM-Amstelland, the Dutch construction group, fell nearly 8 per cent yesterday after its chairman was held on suspicion of money laundering.

The arrest of André Baar, 54, is the first that implicates a director of a listed company in a six-week-old inquiry into dealings on the Amsterdam stock exchange.

Three former stockbroking executives were detained at the same time, bringing the total of those in custody to nine. Berry van den Brink and Roger Leroy, ex-directors of the brokerage Gestion, were remanded along with Dick du Cloo, who had been a board member of NIB Strating. The latter firm was dissolved last week by its owner, the state-controlled National Investment Bank.

Adri Strating, another of the nine and known as the "grand old man" of the bourse, had headed both firms. Mr Leroy – like Han Vermeulen, the first to be arrested in the affair – was previously with Van Meer, which as HSBC Van Meer James Capel is part of the London stockbroker owned by the Hongkong and Shanghai Banking Corporation.

The case also involves allegations of insider dealing and tax fraud. It has prompted a review of controls on bourse trading, and has uncovered evidence of wrongdoing in transactions extending to London, Zurich, and Curaçao in the Netherlands Antilles.

The investigation by justice, tax and securities officials had already struck the country's corporate establishment with the arrest last month of Fred Hendricks, a top pension fund manager at Philips, the electronics group. But with NBM-Amstelland it yesterday touched boardroom level among quoted companies.

As chairman since 1990, Mr Baar had presided over rapid growth at NBM-Amstelland, where revenues last year reached Fl 3.69bn ($1.84bn). That ranked it third in the Dutch building sector. Net profits doubled to Fl 81.5m and its shares, a component of the Amsterdam Midkap index, are among the 50 most actively traded on the bourse. Yesterday they fell Fl 4.50 to close at Fl 52.50.

The company is the leader in the domestic market for civil engineering projects and recently agreed to purchase track laying offshoots from the state-owned railways. Analysts had been ranking NBM-Amstelland as a sector outperformer.

Mr Baar began his career as an apprentice carpenter, rising to head the Amstelland side of The Hague-based group which was created through a merger in 1988. He is a companion of the order of Orange-Nassau, the equivalent of a British knighthood.

Jan van Dongen, a fellow board member, was named acting chairman in his place.

Mr Baar stands accused of making false declarations as well as money laundering. His arrest followed an interview with the Fiod, a state agency which investigates tax affairs.

Order to wind up Trustor in reach

By Greg McIvor in Stockholm

Minority shareholders' efforts to force Trustor, the Swedish investment company, into compulsory liquidation looked stronger yesterday after a dissenting shareholder withdrew objections to the application.

The estate of a deceased shareholder with call options covering about 8 per cent of Trustor's capital had opposed the liquidation order, saying it would render the options worthless.

However, the objections were withdrawn yesterday when Skandinaviska Enskilda Banken Funds, Trustor's largest institutional shareholder, agreed to buy the options. The fund sold all its Trustor B shares, equivalent to 8.5 per cent of the equity, to cover the purchase. The shares are thought to have been purchased by US hedge funds.

Minority shareholders in Trustor, which is embroiled in a SKr620m ($79.6m) fraud inquiry, see compulsory liquidation as essential to clearing up the company's financial position and returning money to shareholders.

Patrik Tigerschiöld, head of SE-Banken Funds, said: "The probability of the liquidation going through must be higher now that we have solved the [options] problem." He said the fund had exercised the options and the transactions had not increased its net exposure to Trustor.

The liquidation application is expected to be considered by a Stockholm court next week. It may be challenged by St Crispin Trading, a Virgin Islands company said to have purchased a 51.8 per cent voting stake held by Lord Moyne, former chairman, in October.

AGF bid may prompt Coface restructuring

By Andrew Jack in Paris

The French government hinted yesterday that it was likely to restructure Coface, the export credit insurer, or change its ownership if the insurer AGF passes into foreign hands.

Dominique Strauss-Kahn, economics, finance and industry minister, said he would find it "difficult to see" how a series of state-mandated functions carried out by Coface and which "directly affect French companies" could be managed other than by a "French company".

His comments were triggered by the prospect of a friendly takeover of AGF by Allianz of Germany. AGF, which was privatised in 1996, owns 57 per cent of Coface. Coface continues to underwrite exports by French companies with support from the French state.

The latest statement from the government follows a wave of political protest at the prospect of AGF falling into foreign hands, which has led to discussion of measures to protect French companies from takeovers.

AGF agreed to the Allianz bid after Italian group Generali launched a FFr55bn ($9.26bn) hostile offer in September. Allianz says it wants only to buy 51 per cent of AGF, and pledges to maintain a minority presence on the board and to keep decision-making in France.

Neither the Generali nor the Allianz bid have formally opened, because they await approval by the French insurance commission and ratification by Mr Strauss-Kahn.

Axa-UAP has been cited as a possible candidate to take control of Coface. In the past it has been closely allied with Generali, and was suggested as a candidate to buy Coface if the Italian bid succeeded.

Athéna, currently owned by the holding group Worms & Compagnie, is shortly to come into AGF's control as the result of a friendly takeover. There are no other quoted French insurers, but only a series of mutuals such as Groupama.

Dominique Strauss-Kahn: foreign ownership concerns *Reuters*

Suez appointment may lead to change

By Neil Buckley in Brussels

Suez-Lyonnaise, the French utility, has appointed a restructuring specialist as chief executive of its subsidiary Société Générale de Belgique, in a move which could presage wider change at the powerful Belgian holding company. Christine Morin-Postel, 51, will succeed Philippe Liotier when he retires in February.

The move led analysts to suggest that Ms Morin-Postel had been appointed to rationalise La Générale.

The Belgian group's interests have been considerably refocused since the then Compagnie de Suez acquired its 63 per cent stake in 1988. But its interests still span financial services, utilities and heavy industry, with sizeable stakes in Générale de Banque, Belgium's biggest, and Fortis, the financial services group, Tractebel, the utility, and in mining group Union Minière and Luxembourg steelmaker Arbed.

Ms Morin-Postel has experience in both halves of Suez-Lyonnaise, formed by this summer's merger of Compagnie de Suez and Lyonnaise des Eaux. She joined Lyonnaise in 1979, holding several posts including international operations and development director, before being recruited to sort out Suez's sprawling property interests.

Although La Générale financed the rise of Belgian industry and once accounted for about a third of the economy, the group's influence has waned. Since the merger, the enlarged group has hinted it was more interested in Tractebel, which has sizeable Belgian electricity and gas interests, than in La Générale's financial activities.

Analysts suggested Suez was preparing a radical re-organisation of La Générale based around Tractebel.

Fortis recently denied reports that it was interested in taking over La Générale's stake in Générale de Banque. But, since the acquisition of Belgium's Banque Bruxelles Lambert by ING of the Netherlands, and Fortis' move to increase its stake in the Belgian bank ASLK-CGER to almost 75 per cent, speculation has resurfaced about a Fortis/Générale tie-up.

See Observer

KLM and Alitalia deep in tie-up talks

By James Blitz in Rome and agencies

Speculation intensified yesterday that KLM, the Dutch airline, was on the verge of announcing a strategic alliance with Alitalia, Italy's national carrier, in the latest step towards consolidation of the European airline industry.

Italian news agencies in Rome reported a KLM official saying that the two airlines were having "constructive" discussions and that Leo van Wijk, KLM president, could hold face-to-face talks in coming days with Domenico Cempella, Alitalia chief executive.

For its part, Alitalia was continuing to insist last night that it would go on holding talks with three European airlines over a possible strategic partner. The other two are Air France and Swiss Air.

However, a KLM spokesman said: "Teams from both sides are looking at all aspects. We are working around the clock to stamp out the details."

A spokesman for Air France was quoted by Italian news agencies as saying that the French company had made "very concrete proposals for the development and creation of a hub at Malpensa" – one of the most important issues facing Alitalia as it seeks to turn itself around after suffering losses for nearly a decade.

A final decision on the strategic alliance is expected to be announced this week or next. In the wake of the decision, Iri, the state holding company, will press ahead with plans to sell some 25 per cent of its share capital next spring.

● Gordon Bethune, chairman of Continental Airlines, said yesterday a stake in the capital of Air France was "not necessary" for the development of links between the two carriers, writes David Owen in Paris.

However, he said Continental would "discuss a participation in Air France's capital if Air France so wished".

Air France announced link-ups with two US companies – Continental and Delta Air Lines – in October 1996. The French government recently gave formal clearance for the French group's capital to be opened to outside investors.

EUROPEAN NEWS DIGEST

Banca di Roma names investors

Banca di Roma, Italy's second largest banking group, yesterday gave details of the main investors in last week's institutional offer of shares as part of a L3,000bn ($1.7bn) capital restructuring. Cesare Geronzi, president, said George Soros, the US investor, and British Petroleum's pension fund were among new investors in the bank. He told two Italian newspapers that funds run by Mr Soros, as well as others by Gartmore, Fleming and Tudor, participated in the offer.

Mr Geronzi also revealed that Russian investors who had last month approached Iri, the state holding company, with a bid to buy a large stake in Banca di Roma, had failed to materialise. "The Russians were invited to take part in the offer," Mr Geronzi said in an interview with La Repubblica. "But they were not seen."

The shareholders who took part in the institutional offer are separate from those which bought shares in a private placement. These include three Arab banks, among them the Libyan Arab foreign bank, which bought 5 per cent. Mr Geronzi also said the core group of investors was still open, with only the insurer Toro Assicurazioni so far signing an agreement with Cassa di Risparmio, the majority shareholder. *James Blitz, Rome*

■ BRUSSELS

Veba-Degussa merger cleared

The European Commission yesterday cleared the proposed merger between Veba, the German industrial group, and Degussa, the chemicals, metals and health care company, after Veba promised to sell its stake in a joint venture with Cabot for the production of fumed silica, a speciality chemical, to an independent company.

In a detailed investigation, Brussels found that without such a sale, the merger would lead to the creation of a dominant position in the European market for fumed silica. Apart from Degussa, which is the market leader, only Cabot and Wacker are active in the market. *Emma Tucker, Brussels*

■ SWITZERLAND

SMH announces ADI purchase

SMH, the Swiss watches group, said yesterday its EM Marin subsidiary had bought ADI Advanced Designs of the US. Nicolas Hayek, SMH chairman, said the acquisition would cost SMH less than $10m and would be financed through cash and SMH shares. It was "one of several that will be coming", he said.

EM Marin is a leader in low-power integrated circuit technology, and ADI designs integrated circuits and systems. The acquisition is expected to treble EM Marin's annual sales of integrated circuits from SFr140m ($97m) now. The technology is important for SMH's products. *Reuters, Switzerland*

■ HUNGARY

Israelis open Budapest complex

Red Sea Hotels and Israeli Control Centers yesterday opened a DM28m ($15m) shopping and entertainment complex, Csepel Plaza, in Budapest. The Israeli companies plan a further 10 complexes in Hungarian cities to create a nation-wide chain by the turn of the century. Construction of the next mall, in Gyor, western Hungary, began yesterday, and is to be completed in seven months.

The 20,000 sq m Csepel Plaza is near a closed steelworks in Budapest, once known as "Red Csepel" for its political leanings. The owners forecast the mall will attract an average 25,000 visitors a day, producing an annual turnover of Ft8bn ($40m).

The Israeli companies, in consortium with Hungarian trading company Transelektro, opened Hungary's first shopping mall, Duna Plaza, a year ago. The 84,000 sq m complex attracts between 30,000 and 50,000 visitors a day, and total turnover in the first year, including office rent, is expected to be between Ft40bn and Ft50bn ($200m-$250m), according to deputy managing director Ferenc Simonyi. *Kester Eddy, Budapest*

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CONTRACTS & TENDERS

CONTRACTS & TENDERS

King of the financial investment bargain

"When there's a panic I am always happy. I look at how everything goes down as a result of the herd instinct. Then I buy."

Prince Al-Waleed Bin Talal Bin Abdulaziz Al-Saud flashes a faint smile as he assesses his losses following the recent instability on the world stock markets.

"One day I lost $640m in four hours. But I didn't panic. I looked for what to buy."

As the markets plummeted, the nephew of Saudi Arabia's King Fahd drew upon a cash reserve which he says totals about $3bn, and went on a buying spree.

Using $1.2bn of this treasure chest, he bought 5 per cent of Rupert Murdoch's News Corp, 5 per cent of the internet browser Netscape Communications and a similar stake in Motorola, the cellular telephone manufacturer.

Meanwhile, eyeing south-east Asia's troubles, he has spent $300m buying stakes in Daewoo, the South Korean engineering giant, and Proton of Malaysia.

"For me, as a dollar-based investor, some countries went down by 45 per cent. We were buying at up to 80 per cent discounts, after currency conversion. And that market could go down further, though I think on balance the bad news is over."

His purchases barely dented his total assets, which he puts at $12bn, built on a series of well-timed investments in once-ailing companies such as Citicorp, which his $590m investment in 1991 helped shore up to a current worth of $5.1bn.

"It's a well defined strategy. I'm a financial not a strategic investor. Most investors concentrate on their sectors. For me, I can see us investing in many countries, if the companies I have assessed are at the right price," he says.

Prince Al-Waleed is less a gambler than arguably the world's most successful bargain hunter.

His purchase of News Corp marked a long-expected move into global media. It was also the latest sign that the financier, who conducts business from beneath a tent in the Saudi Arabian desert or aboard his luxurious private Boeing 727, is evolving a new strategy.

"The media and communications investments are long term. Definitely, I'm of the view that technology, media and communications are the future. News Corp is the only company that is beaming to China and India, even though those countries haven't yet opened up their domestic media.

"By nature the media companies are almost always overpriced, so I don't think I will find others," he says.

Global kingdom

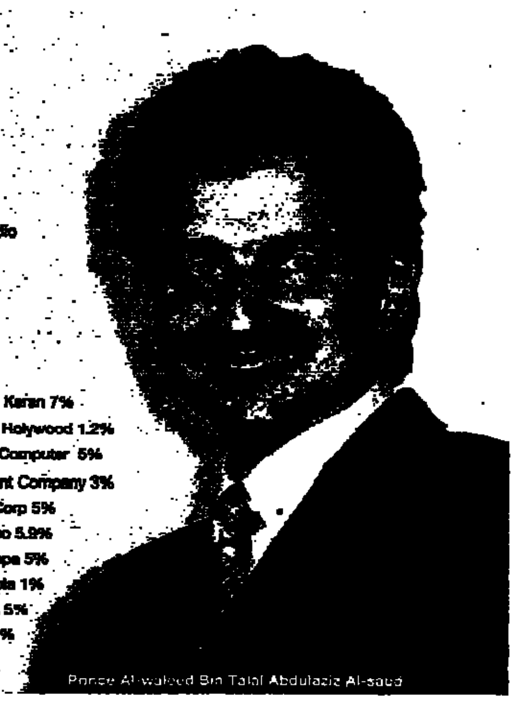
Saudi Arabian holdings
(Kingdom Holding Company)

- United Saudi Bank
- Al-Azizia Panda United
- Al-Mawashi and Al-Mukairish United Company
- National Industrialization Company
- Arab Radio and Television (ART), Rotana for Audio and Visuals Company and SilslaSilki Company for Communication
- Al-Azizia Commercial Investment Company
- Kingdom Residential Complex
- Kingdom Hospital

International holdings

- Citicorp 8.3%
- Four Seasons Regent 25%
- Fairmont Hotels 50%
- Disneyland Paris 24.2%
- Canary Wharf, London 10%
- Saks Fifth Avenue, New York 6.1%
- Copley Plaza, Boston 100%
- The Plaza Hotel, New York 50%
- Movenpick Hotels 30%
- Mediaset, Italy 10%
- George V Hotel, Paris 100%
- Donna Karan 7%
- Planet Holywood 1.2%
- Apple Computer 5%
- Cordiant Company 3%
- NewsCorp 5%
- Daewoo 5.9%
- Netscape 5%
- Motorola 1%
- Proton 5%
- TWA 5%

Source: Arthur Andersen


Prince Al-waleed Bin Talal Abdulaziz Al-saud

His News Corp investment makes him the company's largest shareholder after Rupert Murdoch. But far from the boardrooms and skyscrapers, the most vivid sign of this new strategy can be found on a vast tract of barren desert in southern Egypt.

"Toshka is a turning point. The objective in Toshka is different from the objectives that we have had before. With certain conditions it is feasible and do-able," he says.

He has just completed a visit to 416,000 acres of rock-strewn desert he plans to turn into the world's largest irrigated farm, growing wheat, barley and alfalfa as well as citrus fruits, cotton and vegetables.

The Toshka project is the ambitious dream of Hosni Mubarak, president of Egypt. Its aim is to pump water from Lake Nasser along the Sheikh Zayed Canal, the first 67km stage of which is under construction thanks to $250m provided by Sheikh Zayed of Abu Dhabi, to allow reclamation of part of Egypt's Western Desert.

"I look at Toshka as being very long term. It's close to Saudi Arabia, which is not an agricultural country. We are acting like the catalyst for this project. We are like the anchor investor, who will finance it until take-off, after which we have to get other investors who will manage it. We will be the locomotive."

Prince Al-Waleed's Kingdom Holding Company, in which he is the sole shareholder, has established a subsidiary, the Kingdom Agricultural Company, specifically to control what it predicts will be a $1bn investment at Toshka.

But the launch of the project is conditional on the willingness of the Egyptian government to build a spur canal to take water 40 kilometres into the land to be farmed. The question of who will finance the spur has yet to be answered. The thorny issue reveals his tough side.

"I can go anywhere in the world. Nobody has forced me to come to Toshka. It's not just based on sentiment. Egypt has to understand that there's always competition from the rest of the world. So, I won't accept a rate of return on this investment of less than 20 per cent, because there are many projects in the world. If I accept less, other investors will say: why should I come?"

With KHC investment in Egypt already standing at $450m, Prince Waleed is the crest of a Gulf investment wave in the country. His planned investments in six Egyptian tourist resorts will underpin a global hotels push which may ultimately involve 42 new hotels in 15 countries.

Mövenpick, the Swiss chain in which he holds 30 per cent, is to build eight hotels in Egypt.

Four Seasons Hotels, in which he invested $251m for a 25 per cent stake, is expected to build four five-star hotels – one in Luxor where 58 tourists were killed by Islamist militants on November 17.

"We will not let that incident scare us. The Islamists will definitely scare people. But I'm not really very concerned, because it's not an action by the grassroots," he says.

And as the jet carrying his 25-strong mobile office staff touches down in Cairo, Prince Al-Waleed's sights seem set even further afield.

A recent African tour took him to 13 countries, where 30 projects ranging from agriculture to hotels and fisheries are being considered.

"We go to stable countries. And the countries of sub-Saharan Africa are becoming stable. There's a major democratisation, which will stop corruption, and Africa is the coming continent."

Mark Huband

Sackings at Polish telecoms operator

By Christopher Bobinski in Warsaw

Poland's new centre-right government has sacked the top management at Telekomunikacja Polska (TP), the state-owned telecommunications operator, ahead of its partial flotation next year.

The clean-out, which includes the replacement of Jacek Gadomski, chief executive, by Pawel Rzepka, who headed the company's Poznan district in western Poland, comes as the state treasury calls for bids in an advisory tender which closes at the end of this month.

The company's supervisory board, which, like senior management, had close links with the previous leftwing government, has also been replaced. The new chairman is Miroslaw Jakubowski, who is also the new director general at the telecoms ministry.

The government has justified the sackings by claiming it discovered irregularities in the telecoms operator's credit dealings. Its move came just as Mr Gadomski was due to sign a $350m loan for general corporate purposes provided by a consortium of foreign banks led by Bankers Trust International. The signing of the loan, scheduled for today, has been postponed by TP's new management.

This year TP has raised 350m zlotys ($100m) worth of financing through a zloty-denominated commercial paper issue arranged by the domestic Bank Handlowy.

Last year it raised a $200m loan from a local consortium led by the Pekao SA bank.

The company operates 7m lines, which it expects to increase to 10m in 2000. Its net profit reached 758m zlotys in 1996, climbing to an estimated 1.2bn zlotys this year. TP's net debt at the end of last year was $1.6bn.

The new government's privatisation programme for next year is set to raise 6.5bn zlotys.

Asia slowdown upsets Gucci

By Alice Rawsthorn

Gucci, the Italian fashion group, yesterday unveiled a fall in net third-quarter profits to $43.1m from $46m because of adverse exchange rates and a slowdown in the Asian market.

The decline marks the end of a golden era for the company, which has reported healthy increases in sales and profits since going public in New York and Amsterdam two years ago.

Gucci's difficulties cast a cloud over the rest of the luxury goods sector at a time when other Italian fashion groups – notably Giorgio Armani, Gianfranco Ferre and Gianni Versace – are considering floating their equity.

Domenico De Sole, Gucci president, who warned investors in September about the slowdown, said trading conditions had remained difficult during the fourth quarter. "At the same time, we are carefully managing costs and we expect to report strong operating profits, close to third-quarter levels," he added.

Gucci's shares, which fell sharply after the profits warning, slipped Fl 1 to Fl 75.40 in Amsterdam yesterday.

Last week, the shares' erratic performance fuelled speculation of a bid, but Mr De Sole said there was no evidence of strategic buying. Gucci recently unveiled proposals to buy back up to 5 per cent of its shares, after its institutional investors blocked plans to limit the voting rights of individual shareholders to 20 per cent.

In spite of the slowdown in Asia, net revenue rose to $239.9m from $230.2m in the three months to October 31. However, costs rose from $85.5m to $89.5m and operating profits fell from $68.7m to $63m.

The weak yen, which has depressed Japanese tourism, and economic instability elsewhere in Asia dampened demand in the important duty-free markets of Hawaii and Hong Kong.

Fourth-quarter earnings should be buoyed by the first contribution from Severin Montres, the Swiss company which has held the licence to manufacture Gucci's watches for more than 20 years. Last week, Gucci agreed to buy Severin for $150m.

SMC names managing director

By Andrew Jack in Paris

A former executive at Banque Indosuez and Elf Aquitaine is set to be appointed managing director of Société Marseillaise de Crédit, the troubled regional banking group owned by the French state.

Geneviève Gomez will take day-to-day charge of the bank, leading a team of new executives to be brought in by Patrick Careil, who was yesterday formally appointed chairman by the French cabinet.

Mr Careil, a member of the elite administrative *inspecteur de finance* corps and a close adviser to a series of socialist ministers, has chaired the state-owned Banque Hervet since 1989.

He plans to remain executive chairman and become non-executive head of Marseillaise de Crédit.

He will launch an audit of the Marseilles-based institution, expected to last three months, to assess its health before deciding what measures need to be taken.

The bank has already been subject to successive recapitalisations by the French government and the outgoing administration had agreed with the European competition authorities in Brussels that it would be rapidly privatised.

Mr Careil's appointment comes after a long struggle to oust Pierre Habib-Deloncle, the incumbent head of Marseillaise de Crédit, who resigned in the past few days.

Mr Habib-Deloncle was named head of the bank two years ago after the last-minute intervention by President Jacques Chirac to prevent another candidate being appointed.

He was treasurer of the Friends of Jacques Chirac Association and of a Gaullist banking organisation.

The French banking commission launched a formal investigation last week into Marseillaise de Crédit, after demanding clarification of a number of loans.

Ms Gomez is the sister of Alain Gomez, the former head of Thomson, the defence and electronics group. She is also the former wife of Philippe Lagayette, the outgoing head of the state-controlled financial institution, the Caisse des Dépôts et Consignations.

UK printing group says hostile £188m offer 'fundamentally failed' to recognise its value

Quebecor bids for Watmoughs

By Andrew Davis in London and Scott Morrison in Toronto

Quebecor Printing of Canada yesterday launched a hostile £188m ($314m) cash bid for Watmoughs Holdings, the UK printing and packaging group, which said the offer "fundamentally failed" to recognise its value.

Shares in Watmoughs soared 90p to close at 287¼p, ahead of the offer price of 257p for each ordinary share.

Patrick Walker, chairman, said Quebecor's bid was opportunistic and did not reflect Watmoughs' prospects.

Watmoughs has seen its shares tumble from about 450p early this year amid worries about a squeeze on profits from the strong pound and its management succession.

Quebecor, the second largest commercial printer in North America, said it wanted to expand in Europe by building its presence in the UK, where it bought Hunterprint two years ago.

Watmoughs' pre-tax profits fell 6 per cent to £22.2m in 1996 and analysts are forecasting about £18m for the year to the end of this month.

In August Declan Salter quit as chief executive after only eight months and Mr Walker, the previous chief executive, returned to take charge.

Charles Cavell, president and chief operating officer of Quebecor, said competitive pressure on Watmoughs from larger pan-European rivals would only increase. "I guess there are now three fundamentals – death, taxes and the erosion of prices in the printing industry."

But Mr Walker said yesterday that Watmoughs had addressed its problems. He dismissed Quebecor's assertion that pan-European operations were the way ahead, saying Watmoughs had chosen markets – mainly the UK, Spain and Hungary – with care and had leading positions in them. "We've got very definite views on where we want to be... We're creme de la creme".

Analysts said Quebecor had fallen well short of a knock-out blow. But they said it, or a rival, could find support among investors with a second tilt pitched at more than 300p.

The Canadian group's move is the latest in a number of recent cross-border bids in the sector.

Quebecor is offering 120p in cash for Watmough's preference stock.

The Canadian group is advised by Merrill Lynch and Watmoughs by Schroders.

Charles Cavell of Quebecor

The predator turns impatient and hostile

After failing to woo Patrick Walker and the Watmoughs board and win a bid recommendation over two days of talks this week, Charles Cavell yesterday turned hostile, writes Andrew Davis.

The president and chief operating officer of Quebecor Printing arrived in the UK on Monday last week, sat down with Merrill Lynch advisers and prepared to open talks with his target.

Unable to secure a meeting until Monday, he grew impatient, a quality he let show yesterday. "This is a good base and this is an excellent market and I am going to expand here. It's that simple."

Watmoughs became his target after a year in which it has stumbled.

Sterling's strength has been a severe drag on its trading in continental Europe, and had also dented profits from the Spanish and Hungarian businesses.

Although Mr Walker predicted at April's annual meeting that profits for 1997 would be about £22m ($37m), in line with the 1996 figure, this has not stopped analysts' forecasts falling well below that figure.

They had been forecasting profits of £27m, but have since trimmed predictions to about £18m.

The company suffered further problems in August when Declan Salter quit as chief executive after only eight months. He had been groomed by Mr Walker to run the company.

Instead, Mr Walker was obliged to return to take charge.

Mr Walker said yesterday that Watmoughs had addressed its problems and was back on track.

Mr Cavell said that QPI believed further integration of the European packaging industry was inevitable, and his company was determined to take part.

If it wins, QPI plans to integrate Watmoughs business within its existing UK and European operations, serving customers throughout the continent.

QPI already has substantial operations in Europe. It entered the European market in 1993 with the purchase of Fecomme, breaking into the UK in 1995 with the purchase of Hunterprint for £24m, adding Didier of France the same year.

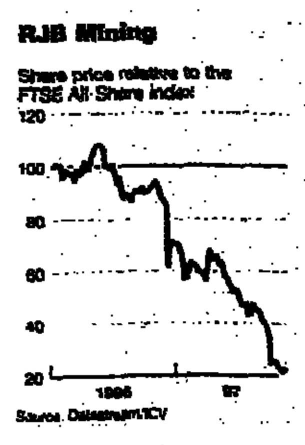
It now has 18 printing plants in the UK, France and Spain, generating revenues last year of $660m.

Mr Cavell said QPI had considered the alternative of building new capacity in the UK, but felt the market was already over-supplied.

To escape the bid, Mr Walker will have to convince shareholders that Watmoughs has a bright future as an independent, and the management in depth to carry its strategy through.

LEX COMMENT

UK coal



Old King Coal has come back to haunt another British government. Such is the industry's grip on public emotions that, even in its much diminished size, it can cause politicians to swerve. In itself, reviewing whether new gas-fired power stations should be built is not barmy: too much reliance on one energy source could conceivably threaten security of supply. But in the context of mounting pressure from backbenchers to do something to save British mines, it looks a naked attempt to rig the market. Even as a tool for preserving pits, banning gas-fired stations is blunt. It would mean more coal was burnt than would otherwise be the case. But the long construction times required for gas-fired power stations mean there would be a delay of at least two years before there was any effect on capacity, and there would be no guarantee that the coal eventually bought was mined in Britain. Indeed, since most local coal is uncompetitive, incremental demand would probably be filled by imports. British pits could be saved only if even more extreme measures were taken – like stockpiling mountains of coal and subsidising the industry.

Even more worryingly, preventing construction of cheap gas-fired plant would distort the entire electricity market. Artificially restraining new entry would buttress the National Power/PowerGen duopoly. It would be ironic indeed if a government which only last week highlighted its generosity in helping pensioners pay their heating bills adopted a policy which pushed electricity prices up.

Bass tumbles after exceptionals

By John Willman and Scheherazade Daneshkhu

Bass, the brewing and leisure group, yesterday reported a higher-than-expected £177m ($295.6m) write-down in the value of its chain of 131 Gala bingo clubs where profits fell 22.6 per cent to £24m.

The write-down in bingo assets was one of three exceptional items totalling £237m which contributed to a 28.9 per cent fall in pre-tax profits to £477m for the year to September 30.

The group is in negotiations over the sale of Gala to a venture capital group for about £250m. Sir Ian Prosser, chairman, declined to comment on the sale, or on speculation that the Coral betting shop chain was also on the market.

The group, which has gearing of 15 per cent and falling, has been under pressure either to hand money back to shareholders or make a big acquisition. Analysts estimated Bass could easily spend up to £2bn.

Sir Ian said he did not rule out returning money to shareholders. But a survey of its institutional shareholders had shown no pressure for a share buy-back.

However, he said the group wanted to expand in its three core businesses of brewing, pub operations and hotels – in each case outside the domestic market.

"We are hoping to add to Holiday Hospitality [the hotels divsion] in Europe and Asia," he said.

He added that the economic crisis in south-east Asia could offer opportunities for Bass to pick up hotels in the region.

Tom Oliver, chairman and chief executive of Holiday Hospitality, said the company was looking at acquisitions but had been unable to agree on price.

The scope for an acquisition was indicated by Richard North, finance director, who said the group's interest cover was 9.7 times. Bass would be happy to see interest cover fall to four times, he added, and was prepared to go as low as three times.

Strong performances in brewing and pub operations raised pre-tax profit before exceptionals 6.4 per cent to £714m on turnover up 2.8 per cent to £5.25m. Bass continued to invest heavily in building its beer, pub and hotel brands, with net capital expenditure up 5.5 per cent to £599m.

The failed Carlsberg-Tetley venture led to a net loss of £35m on the sale of its 50 per cent stake. The group also reported exceptional reorganisation costs of £25m on the closure of breweries in Cardiff and Sheffield.

News of the write-downs sent the shares down 14p in early trading, but they recovered to end ½p up at 874½p.

Energis float value 'inflated'

By Alan Cane

Shares in Energis, the National Grid's telecommunications subsidiary which is being floated next week, have been overpriced by the company's financial advisers, according to independent research published yesterday.

The stockbrokers Lehman Brothers and BZW, neither of which are involved in the flotation, suggested prices of 180p and 243p respectively, compared with the indicative range of 250p-325p set in the pathfinder prospectus, published last month.

The offer price is expected to be announced on Tuesday with conditional dealings starting in London and New York the same day.

Energis plans to raise between £173.9m and £227.6m ($380m) most of which will be used to repay more than £200m of loans to the National Grid.

Lehman Brothers said: "We believe that the UK long-distance market is highly competitive at both the service and facilities levels and that this will restrict market share, margins and profitability for Energis."

It goes on to point out that Energis is the sixth largest UK operator in revenue terms but that while British Telecommunications and Mercury – now part of Cable and Wireless Communications – have been losing market share, there are several fast growing carriers in the UK of about the same size – including WorldCom, AT&T, NTL and ACC.

The new research implies a lower enterprise value for Energis than had been estimated. The pathfinder pricing implied an enterprise value of £737m–£941m, while James Dodd, analyst at Dresdner Kleinwort Benson, global co-ordinator for the float, calculated a mean value of £1.3bn in October. BZW calculates an enterprise value of £775m.

MEPC hails a strategic shift

By Norma Cohen, Property Correspondent

James Tuckey, chief executive of MEPC, yesterday said the UK's third largest property company had begun a significant strategic shift.

MEPC has underperformed much of the property sector in recent years, and has been under pressure to improve returns to shareholders.

"What is new is the strategic changes we are making: the organisational changes, the out-sourcing of non-core activities and the strengthening of teams at board level", Mr Tuckey said.

However, he conceded that the company had more work to do before satisfying its critics. "We dont underestimate what we have to undertake in 1998 to complete the results."

MEPC also reported a 20 per cent rise in annual pre-tax profits to £167m ($279m) before exceptional charges.

Charges in the year to September 30 included £73m for interest rate swap terminations and a £9.5m charge for restructuring.

Of this, £4.9m relates to staff termination costs in the US and Australian businesses and £4.4m to the out-sourcing of facilities for the UK portfolio.

A £43m provision was made against further charges, mostly tax-related, for the sale of the US and Australian businesses.

Mr Tuckey declined to specify the timing of those sales, but analysts believed that it was unlikely the Australian business would be sold before the end of March 1998, and those in the US about three months later.

Net asset value rose 12.7 per cent to 507p before the provisions and 10.4 per cent to 497p after.

MEPC said it had changed the way it valued properties in its development portfolio from net realisable value to an open market value basis. It had also changed its year-end valuation date from August 31 to September 30 to coincide with its fiscal year.

Market maintains its interest in BTG

By Roger Taylor

An injection which makes varicose veins disappear and a scanner that can detect drugs in airport luggage were among potential products outlined yesterday by BTG, the intellectual property company privatised five years ago.

These and thousands of bright ideas have lifted BTG's market value from £38m to £600m ($1bn) since floating in 1995. Three years earlier, the government had agreed to a £28m management buy-out after being advised that there would be limited interest in the shares.

BTG was reporting results for the six months to September. It made pre-tax losses of £4.15m (profits of £170,000) on turnover of £12.1m (£22.46m).

The remarkable reassessment of the company's worth reflects a rapid learning curve for investors. BTG is a unique business and finding appropriate yardsticks with which to value it has taken time.

It was formed out of the National Enterprise Board and the National Research Development Corporation set up in 1974 and 1949 respectively, by Labour governments keen to promote British inventiveness and worried by the exploitation of UK ideas overseas.

It specialises in commercialising inventions by ensuring they have adequate patent protection and by seeking backers willing to license and develop them.

But unlike patent lawyers and consultants who charge fees, BTG works on a contingency basis, taking a share of any revenues generated on patents. This approach has made it attractive to both lone inventors and multinational companies.

Colin Beere

Ian Harvey, chief executive (left), and Rusi Kathoke, finance director, with product samples

Its varicose veins treatment was developed by a Spanish doctor who has already tried it on several hundred patients. The injection, which is still to complete clinical trials, would replace operations.

The detection system for screening baggage for drugs and explosives was developed by King's College, London, and has now been licensed to Vivid Technologies of Massachusetts in the US, which has 70 per cent of the market for screening airline baggage.

The shares have been helped by the success of the biotechnology and electronics sectors, where investors have been willing to back lossmaking technology businesses. Its stock had the added attraction of providing exposure to a wide spread of different markets and technologies. However, it has become a victim of the success of its most developed product, Torotrak, a system for making gearless cars, which is now licensed to seven motor manufacturers, with 12 others doing initial development work.

Dresdner Kleinwort Benson, the company's broker, estimates Torotrak now accounts for 55 per cent of the company's value. If the product were to run into difficulties the shares would collapse.

However, the outlook remained positive yesterday, with the news that Ford and Toyota are taking the system into the next stage of development.

The company is confident enough of its prospects to pay dividends although it is lossmaking. Brokers are forecasting a full year loss in excess of £7m (£2.73m).

BTG's internal revenue targets are far higher than most brokers forecasts. DKB gives a central valuation figure for the business about 13 per cent below its current share price, up 12½p at 665p.

But DKB assumes patent income of £77m by 2006. BTG's own target is £140m, although the projections from its various departments, when added together, point to a figures closer to £250m. If its own targets are realistic, the shares are undervalued.

Windward Cap to buy Morris Ashby

By Emiko Terazono

Automotive Components Investments, a vehicle recently formed by Windward Capital Partners of the US, has made a £49m ($81.8m) recommended cash offer for Morris Ashby, the diecasting company.

The move is part of Windward's strategy of investing in car component companies. It would allow Morris, which supplies Ford Motor and Volkswagen, to become part of a larger group supplying the international market. Windward has asked the management to stay on.

The offer follows Morris's announcement on Monday that it was in talks, which pushed the shares up 45p. They gained 7½p to 397½p yesterday. Windward has received undertakings to accept the offer, at 400p a share, from directors with 38.8 per cent of the company.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bass	Yr to Sept 30	5,254	(5,109)	477♠	(671)	28.2	(50.4)	19.2	Feb 9	17.3	27.5	25
Birmingham City Φ	Yr to Aug 31	7.62	(7.34)	1.13	(1.87L)	2.52†	(5.33L)	-	-	-	-	-
Blick	Yr to Sept 30 ★	75.1	(63.9)	12.9	(15.3)	29.08	(36.94)	9.5	Apr 1	9.5	14	14
BTG	6 mths to Sept 30	9	(12.1)	4.15L♥	(0.17♠)	4.65L†	(0.13L)	-	-	-	-	0.88
C&B Publishing Φ	Yr to Aug 31	12.3	(8.38)	0.615	(0.426)	12†	(10.7)	-	-	-	-	-
Carlton Comms	Yr to Sept 30	1,750	(1,678)	318.3♠	(295.1)	33.2	(31.6)	7.5	Apr 6	6.72	12.4	11.09
Delancey Estates	6 mths to Sept 30	1.15□	(0.902□)	0.516	(0.175L)	1.9†	(1L)	nil	-	nil	-	1.55
Eve	6 mths to Sept 30	44	(48.8)	1.54	(0.75)	10.4	(5.4)	2.3	Mar 20	1.5	-	4.5
First Circle	6 mths to Sept 28	7.2	(6.19)	0.791L♥	(1.38L♠)	0.73L†	(1.33L)	-	-	-	-	0.1
Gibbon	6 mths to Sept 30	17.5	(16.1)	1.37	(0.776)	8.5	(4.8)	2.5	Feb 12	2.5	-	7
GWR	6 mths to Sept 30	35.2	(31)	6.07♥	(4.76♠)	3.9†	(3.7)	1.3	Jan 12	1.07	-	3.85#
Heal's	Yr to Sept 13	24.2	(19.4)	1.54♠	(1.8)	1.2L	(15.9)	3.2	Feb 25	-	3.2	-
Heath (Samuel)	6 mths to Sept 30	5.13	(4.73)	0.405	(0.286)	9	(6.4)	3.5	Mar 27	3	-	7
Helphire	6 mths to Sept 30	9.66	(3.13)	0.818	(0.281)	3.4†	(2.7)	0.4	February	-	-	-
Lotteryking Φ	6 mths to Oct 31	0.805	(0.684)	0.071	(0.056)	0.04	(0.03)	-	-	-	-	-
Lovell (YJ)	Yr to Sept 30	226.7	(254.3)	1.54L	(11.8L♥)	7L	(32.5L)	nil	-	nil	nil	nil
MEPC	Yr to Sept 30	382.1□	(390.9□)	84.1♠	(140.2)	13.2	(22.9)	14.75	Feb 4	14.75	20	20
Micro Focus	9 mths to Oct 31	66.7	(52.3)	9.01	(8.37L)	40.3	(57.7L)	-	-	-	-	-
Morris Ashby	6 mths to Sept 30	23.8	(18.8)	2.42	(1.3)	14.9	(8.1)	3.5	Jan 9	2.8	-	8.5
Orbis	6 mths to Sept 30	17.6	(12.6)	1.87	(1.3)	1.67†	(1.42)	0.35	Feb 27	0.3	-	1.27
Quillgotti	6 mths to Sept 30	11.6	(5.22)	1.1	(0.403)	0.92†	(0.9)	nil	-	nil	-	nil
SEC	Yr to Sept 30	73.2	(59.7)	3.3	(2.6)	12.79†	(11.2)	2.85	Jan 30	2.75	5.1	4.75
Sutton Harbour Φ	6 mths to Sept 30	1.63	(1.4)	0.421♥	(0.22)	4.22†	(3.62)	1.3	Jan 9	1.2	-	3.4
TGI	6 mths to Sept 30	25.2	(25.5)	1.14	(1.01)	4.1	(3.9)	1.2	Jan 30	1.15	-	3.5
UK Land	6 mths to Sept 30	1.2□	(1.41□)	0.3	(0.672)	3	(7)	-	-	-	-	3

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Dunedin Enterprise	6 mths to Oct 31	309.8	(294.7♦)	1.55	(1.26)	6.49	(5.27)	2.25	Jan 30	2	-	9.1
Fleming Indian	Yr to Sept 30	59.9	(47.7)	0.495L	(0.244L)	0.54L	(0.27L)	-	-	-	-	nil
Fulcrum	6 mths to Oct 31	-	(-)	-	(-)	-	(-)	1.4‡	Dec 31	1.4	-	10.25
Henderson High Inc	9 mths to Sept 30	-	(-)	-	(-)	-	(-)	1.7§	Jan 31	1.6	-	6.45
Jos	3 mths to	-	(-)	-	(-)	-	(-)	3.25	Jan 13	3.15	-	14

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ΦAim stock. ★Comparatives restated. †On increased capital. □Rental income. #For 18 months. ♦At April 30. ‡Second interim, making 2.8p (same) to date. §Third interim: makes 5p to date.

IT stocks jump on index proposal

By Paul Taylor

Shares in information technology companies surged yesterday after the announcement that an index covering UK-based IT companies quoted on the London Stock Exchange is to be introduced, possibly at the end of next year.

Among the leaders, shares in Sage Group, Sema Group and CMG were up between 4 and 6 per cent.

The committee which oversees share classifications will create a separate sub-sector within the Support Services category for IT companies.

Mark Makepeace, managing director of FTSE International, which manages the benchmark UK share indices and is owned by the Financial Times and the London Stock Exchange, said: "As IT companies continue to grow, it is probable that this sub-sector will be made into a separate industry category at the end of 1998."

The valuation of IT companies on the Official List is little more than 0.83 per cent of the FTSE All-Share index – below the 1 per cent generally regarded as the smallest percentage for introducing a separate category. However, the committee noted that since the sector was growing rapidly, it would review the situation again in 1998. The decision was applauded by companies in the sector, fund managers and investors who have long campaigned for a separate IT index.

Under the proposals, 62 IT companies, including a number involved in the computer software and services industry, will be placed in the sub-category.

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LEX COMMENT
UK coal

EPC hails a
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Morris Ashby

PUBLIC NOTICE

INTERNATIONAL CAPITAL MARKETS

Europe awaits central bank meetings

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

European bond markets fell slightly yesterday, giving up some of the gains achieved in Tuesday's sharp move forward, as investors stayed on the sidelines ahead of central bank meetings today in the UK and Germany.

However, analysts said there was little likelihood that the Bank of England or the Bundesbank would adjust their interest rate policies this week.

This combined with continued strength in the US bond market, where the long bond yield again threatened to break below 6 per cent, to help keep yesterday's retreat in Europe to a minimum.

UK GILTS were the weakest European market, with the March contract settling $\frac{7}{32}$ lower at 119$\frac{24}{32}$ in quiet trading. The Bank of England is expected to wait to assess Christmas spending trends before considering another rate rise but investors were anxious yesterday to avoid being exposed to any pre-emptive move, as happened with last month's 25 basis point rise.

"It's a close call on whether the Bank will raise rates, and many participants are fairly reluctant to take big positions ahead of the monetary policy committee decision," said Steven Andrew, gilts specialist at Merrill Lynch. "It's in the back of the market's mind that the Bank could act in a pre-emptive way again, and traders do not want to leave themselves open to such a surprise."

That, and next week's data on producer prices and manufacturing output, which will also have a bearing on interest rates, continue to weigh on the market. "Given the stage of the monetary cycle we're at, gilts are very sensitive to any data that comes out," Mr Andrew said.

GERMAN BUNDS edged down ahead of today's Bundesbank meeting, with other European markets following.

The December bund future settled in London at 104.22, down 0.05, while the March future settled at 103.52, also 0.05 lower.

Debate continued on whether the Bundesbank needed to raise rates, or would come out with a pre-emptive strike. Most analysts said a rise was unlikely because it was not justified by domestic economic factors.

While short-term maturities continue to discount central bank tightening, analysts said any move would not do too much damage to the fundamentally positive outlook for bunds at the moment.

FRENCH OATS were unchanged after setting a new contract high in early trading on strong overseas buying interest.

The December future ended in Paris flat at 100.54. Auctions today of French franc and Ecu-denominated paper were expected to go well because of the light volume of the transactions and the current buoyancy of the 10-year sector.

SPANISH BONOS marked time in line with bunds. The December bono contract settled at 105.21, down 0.11, in active trading as auctions of five-year and 15-year paper were digested.

US TREASURIES moved higher in the busiest trading day of the week, with long-term issues gaining the most as the long bond yield continued to fall. By early afternoon the benchmark 30-year bond was up $\frac{15}{32}$ to 101$\frac{1}{32}$, sending the yield down to 6.012 per cent.

Ten-year notes rose $\frac{5}{32}$ to 102$\frac{1}{32}$, yielding 5.825 per cent, while two-year notes gained $\frac{1}{32}$ to 99$\frac{25}{32}$, yielding 5.743 per cent. The Federal Funds rate was at 5% per cent.

"It looks like we are gearing up for a break through the 6 per cent level," said William Gamba, manager of bond trading at Cowen & Co in New York.

The bond market has gained momentum in recent sessions, with overnight buying from overseas markets as well as domestic retail buying helping to push bond prices higher.

New data on home sales helped to firm up bonds. The figures showed the market having stabilised, with recent downturns in sales. Home sales in October fell by 1.7 per cent, after a 2.5 per cent rise in September.

CAPITAL MARKETS NEWS DIGEST

CORRECTION

World Bank in $200m add-on

The World Bank has issued a $200m add-on tranche to its recent five-year dollar bond. Yesterday's eurobond column misidentified this as being issued by Russia.

The World Bank add-on, which was lead-managed by SBC Warburg, was priced at a spread of 15 basis points over five-year Treasuries, compared with an initial launch spread of 20 basis points.

■ RUSSIAN INVESTMENT FUND

Swedbank in link with Brunswick

Swedbank, one of Sweden's biggest financial services groups, has joined forces with Brunswick Capital Management, a specialist in Russian equities, to launch a fund investing in Russian blue-chip companies and aimed at Swedish retail investors.

The open-ended mutual fund will be launched in Sweden in the second quarter of next year, will be denominated in Swedish kronor, and will be able to be traded daily. It will be managed by Robur Kapitalförvaltning, Swedbank's asset management arm and the leading Swedish retail fund management group, with Brunswick acting as adviser. The launch of the new fund marks the first time Robur has co-operated with an external adviser. Swedbank and Citibank, its correspondent bank in Moscow, are to act as custodians.

The size of the fund will depend on market conditions but is expected to be about $100m. Its strategy will be to invest in Russian blue-chip and liquid second-tier stocks. Martin Andersson, Brunswick chief executive, said that in spite of the recent correction in the Russian equity market, the economy's return to growth meant the market had "significant upside potential over the coming years".

Vincent Boland

■ CREDIT RATINGS

Fitch IBCA to harmonise

Fitch IBCA, the recently merged credit rating agency, yesterday announced it was harmonising differing credit ratings to complete the tie-up between the two. The new rating agency, the world's third largest after Moody's Investors Service and Standard & Poor's, said it was upgrading 20 ratings and downgrading a further nine. Eight remain on RatingWatch for possible change.

The agency, which is thought to have combined annual income of more than $100m, also said it was adopting the Fitch nomenclature for short-term ratings. Short-term ratings are therefore on the scale of F (F1, F2, etc) as opposed to A.

Edward Luce

Rarity value boosts demand for Sardinia

INTERNATIONAL BONDS

By Edward Luce

Investors were again offered a range of rare borrowers and unusual structures yesterday but there was little to suggest the mainstream market would spring back to life before 1998.

SARDINIA's $460m issue attracted most attention as the first conventional eurobond to be offered by an Italian region. Both Sicily and Tuscany have repackaged domestic deals for the eurobond market but Sardinia is the first to launch a bond as an on-shore borrower.

At a spread of nine basis points over Libor and 11.5 basis points all-in, the 10-year deal was viewed as relatively expensive by some houses. "This is the type of pricing you would expect on a five-year deal," said one trader.

However, an official at Chase Manhattan, lead manager, said the 20 per cent risk weighting on the bond had made it attractive to banks across Europe. The rarity value of the borrower had also boosted demand.

Lazio, the Italian region that includes Rome, is also planning to make a eurobond debut in the near future, having signed up to a global medium-term note programme last week.

AMBROVENETO, the Italian bank, also made its debut with a $400m 10-year floating-rate note.

The offering, proceeds of which will go towards Ambroveneto's acquisition of Cariplo bank in January, was the first upper tier two bond offering by an Italian bank. It was also the first subordinated eurobond by a bank since the market crisis in late October. "The success of this deal is very reassuring for the secondary markets," said an official at BZW, joint lead with UBS.

Ambroveneto was allowed under Italian regulations to give the bond a fixed maturity as opposed to the perpetual maturity standard on subordinated issues elsewhere in Europe. Officials said the attractive spread – 95 basis points over Libor at re-offer – "reflected market conditions".

The WORLD BANK followed up its $200m add-on on Tuesday with a L300bn "reverse floater" yesterday. The 12-year bond, which comes hard on the heels of a similar lira-denominated transaction by the EIB last month, has a 12 per cent coupon in its first year stepping down to 7 per cent until the fourth year. Thereafter it will switch to a floating-rate coupon of 15.5 per cent minus twice Libor.

The structure is designed to appeal to Italian retail investors by offering a high initial coupon followed by a bet that European interest rates will remain low and stable after monetary union.

Elsewhere, TELEFONICA, the Spanish telecoms company, was rumoured to be mulling a five-year dollar bond. But syndicate officials said there was little else on the horizon.

"There's basically a week and a bit left of this year," said one. "No-one's going to take any great risks with that kind of window."

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Sardinia(a)‡	460	(a1.‡)	100.00R	Dec 2007	0.12R	-	Chase Manhattan Intl
Ambroveneto Intl Bank‡	400	(b)	99.275R	Jan 2008	1.00R	-	Barclays/UBS
Polaris Funding Corp(c)‡	95	(c1.‡)	100.00	Sep 2007	0.30	-	Merrill Lynch International
■ D-MARKS							
Eurofima	525	5.625	99.403R	Dec 2009	0.35R	+18(i)	Commerzbank/Deutsche
Rheinische Hypo(d)	500	4.75	96.705R	Jul 2004	0.10R	+12(6%Jul04)	(d1)
■ FRENCH FRANCS							
Rheinische Hypo(e)	550	(e1)	100.325R	Jan 2008	0.325R	-	CCF
Bayerische Landesbank(f)	500	(f1)	100.325R	Jan 2008	0.325R	-	CDC Marchés
■ ITALIAN LIRE							
World Bank‡	300bn	(g)	100.8617	Jan 2010	undiscl	-	
Eurofima‡	100bn	(h)	99.50r	Dec 2009	0.25r	-	Sanwa International
■ GUILDERS							
ING Bank(j)	250	6.00	100.71	Oct 2007	0.425	+48(i)	ING Barings
■ LUXEMBOURG FRANCS							
DSL Bank	400	5.625	101.88	Jan 2005	1.875	-	Generale/Kredietbank
■ DANISH KRONER							
Crédit Local de France(k)	2bn	zero	100.00	Jan 2003	1.375	-	BIL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Amortises from June 98: average life 5.8 yrs. a1) 6-mth Libor +9bp. b) 3-mth Libor +85bp. c) Repackaged investment grade bonds. Callable from 28/9/04 at par. c1) 3-mth Libor 33bp. d) Oeffentliche Pfandbriefe. Fungible with DM1bn. Plus 145 days accrued. Joint bookrunners: ABN Amro HG, Barclays Capital, CDC, Dresdner KB, HSBC Trinkaus. e) Oeffentliche Pfandbriefe. Callable on 15/1/03 at par. e1) 5.43% to 15/1/03, then 6.53%. f) Callable on 16/1/03 at par. f1) 5.43% to 16/1/03, then 6.54%. g) 12% in 1st yr, 7% in yrs 2-3, then 15% - 2 x 12-mth Libor, min 2½%. g1) Joint bookrunners: BCI, Caboto, Cariplo, JP Morgan, Sanwa. h) 12½% in 1st yr, 8% in yrs 2-3, then 15½% - 2 x 12-mth Libor. i) Over interpolated yield. j) Fungible with Fl 750m. Plus 71 days accrued. k) Principal repayment indexed to Dexia Belgian shares: min 100%, max 160%. l) Long 1st coupon. r) Recommended re-offer.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 3	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	6.250	101.2503	5.22	–	+0.15	+0.30	–1.03
	10/07	10.000	127.6034	6.17	–0.07	+0.14	+0.14	–0.84
Austria	09/99	7.000	104.1300	4.52	+0.02	+0.02	–0.05	+0.75
	07/07	5.625	100.8100	5.51	+0.01	–0.05	–0.17	–0.17
Belgium	04/99	7.000	103.5600	4.28	+0.03	+0.03	–0.12	+0.96
	03/07	6.250	104.8500	5.56	-	–0.05	–0.22	–0.15
Canada	03/99	4.000	99.5200	4.38	–0.03	+0.12	+0.38	+0.72
	06/07	7.250	112.4500	5.52	–0.01	+0.03	–0.02	–0.52
Denmark	12/99	6.000	102.3800	4.73	+0.03	+0.01	–0.10	+0.58
	11/07	7.000	108.1300	5.80	–	–0.05	–0.27	–0.60
Finland	01/99	11.000	107.1260	4.23	+0.01	+0.01	–0.12	+0.42
	04/06	7.250	110.8050	5.59	–0.02	–0.05	–0.19	–0.61
France	11/99	7.000	104.8200	4.34	+0.04	+0.01	–0.06	+0.78
	10/04	6.750	108.9400	5.17	+0.02	–0.04	–0.16	+0.14
	10/07	5.500	100.6000	5.42	+0.01	–0.06	–0.22	–0.15
	10/25	6.000	100.8900	5.95	–	–0.09	–0.30	–0.57
Germany	06/99	3.500	98.9100	4.24	+0.02	+0.04	–0.01	+0.82
	07/04	6.750	108.3200	5.22	+0.03	–0.04	–0.11	–0.02
	07/07	6.000	104.1600	5.42	+0.01	–0.06	–0.21	–0.16
	07/27	6.500	107.0600	5.98	–0.01	–0.10	–0.27	–0.51
Ireland	04/99	6.250	101.2500	5.22	+0.06	–0.09	–0.18	–0.56
	08/06	8.000	114.7200	5.79	+0.01	–0.10	–0.31	–0.70
Italy	05/00	6.000	101.9900	5.12	+0.03	–0.01	–0.26	–1.31
	05/02	6.250	103.2600	5.41	+0.03	–0.03	–0.28	–1.37
	07/07	6.750	106.8100	5.81	+0.01	–0.07	–0.34	–1.66
	11/26	7.250	112.6800	6.29	+0.01	–0.13	–0.37	–1.75
Japan	06/99	4.800	106.6000	0.47	+0.04	+0.13	+0.01	–0.27
	12/02	4.800	117.3000	1.24	–0.03	+0.02	–	–0.50
	09/05	3.000	109.3400	1.71	–0.07	–0.06	+0.03	–0.67
	03/17	3.500	113.9700	2.58	–0.06	–0.07	+0.11	–0.61
Netherlands	06/99	7.500	104.5000	4.35	+0.04	+0.06	–	+0.91
	02/07	5.750	102.4900	5.40	+0.01	–0.05	–0.20	–0.16
New Zealand	02/00	6.500	99.0051	6.99	+0.03	+0.07	+0.07	+0.20
	11/06	8.000	108.3555	6.72	+0.02	+0.08	+0.07	–0.22
Norway	01/99	9.000	105.0900	4.34	–0.04	–0.06	–0.19	–0.19
	01/07	6.750	108.2500	5.57	+0.02	–0.04	–0.24	–0.57
Portugal§	03/98	8.500	104.4241	4.85	+0.01	–0.03	–0.27	–1.34
	02/07	6.625	105.8063	5.79	–	–0.06	–0.25	–1.07
Spain	07/99	7.400	104.1960	4.66	+0.02	–	–0.22	–1.21
	03/07	7.350	111.3983	5.73	+0.02	–0.04	–0.29	–1.14
Sweden	01/99	11.000	108.1010	5.22	+0.04	+0.04	+0.10	+0.27
	08/07	8.000	112.9230	6.19	+0.01	–0.08	–0.22	–0.74
Switzerland	03/99	4.000	102.7500	1.76	–0.01	–0.27	–0.29	–0.38
	08/07	4.500	107.8200	3.52	+0.01	–	–0.09	–0.37
UK	08/99	6.000	98.2969	7.06	–	+0.03	+0.19	+0.46
	11/04	6.750	100.7344	6.62	+0.02	–0.05	+0.01	–0.55
	12/07	7.250	105.5469	6.49	+0.02	–0.05	–0.09	–0.84
	06/21	8.000	119.2422	6.41	+0.04	–0.02	–0.09	–1.05
US	07/99	5.875	100.1330	5.78	–0.01	+0.01	+0.07	+0.18
	05/04	7.250	107.4728	5.84	–	–0.02	–0.08	–
	08/07	6.125	102.1194	5.83	–0.02	–0.02	–0.07	–0.23
	08/27	6.375	104.2882	6.06	–0.01	–0.04	–0.16	–0.30
ECU	03/99	5.000	100.3900	4.66	+0.03	+0.02	–0.05	+0.57
	04/07	5.500	99.5900	5.55	–0.01	–0.08	–0.24	–0.41

London closing, *New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 3	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.17	+0.75	+0.34
Austria	5.51	+0.09	–0.32
Belgium	5.56	+0.14	–0.27
Canada	5.53	+0.11	–0.30
Denmark	5.89	+0.47	+0.06
Finland	5.59	+0.17	–0.24
France	5.42	–	–0.41
Germany	5.42	–	–0.41
Ireland	5.79	+0.37	–0.04
Italy	5.81	+0.39	–0.02
Japan	1.71	–3.71	–4.12
Netherlands	5.40	–0.02	–0.43
New Zealand	6.72	+1.30	+0.89
Norway	5.57	+0.15	–0.26
Portugal	5.79	+0.37	–0.04
Spain	5.73	+0.31	–0.10
Sweden	6.18	+0.76	+0.35
Switzerland	3.51	–1.91	–2.32
UK	6.49	+1.07	+0.66
US	5.83	+0.41	–
ECU	5.55	+0.13	–0.28

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Dec 3	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB–	94.5867	8.55	+0.24	+0.30	+2.75
Poland	07/00	7.750	BBB–	102.8193	6.51	–0.35	+0.18	+0.73
Russia	11/01	9.250	BB–	96.7925	10.27	–0.53	–0.33	+4.48
■ LATIN AMERICA								
Argentina	01/17	11.375	BB	107.7500	10.42	+0.03	–1.63	+4.50
Brazil	11/01	8.875	BB–	98.6258	9.30	–0.08	+0.59	+3.51
Mexico	01/07	9.875	BB	104.5000	9.13	+0.26	–0.80	+3.30
■ ASIA								
China	07/06	7.750	BBB+	105.8612	6.80	–0.09	–0.64	+0.98
Philippines	10/16	8.750	BB+	91.6661	9.72	–0.40	–0.47	+3.80
Thailand	04/07	7.750	A–	89.4371	9.49	–0.33	–0.45	+3.66
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	102.0589	8.19	+0.40	+0.26	+2.41
South Africa	12/99	9.625	BB+	104.4230	7.23	+0.16	+0.32	+1.47
Turkey	05/02	10.000	B	102.2450	9.37	–0.35	–1.25	+3.57
■ BRADY BONDS								
Argentina	03/23	5.500	BB	72.8930	8.61	–	–0.89	+2.63
Brazil	04/24	5.250	BB–	70.6900	8.79	+0.02	–0.45	+2.80
Mexico	12/19	6.250	BB	82.5000	7.94	–	–0.07	+2.00
Venezuela	03/20	6.750	B+	86.3800	8.06	+0.08	–0.35	+2.13

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	100.64	100.54	–	100.76	100.48	113,767	100,650
Mar	100.10	100.06	+0.02	100.28	100.02	33,273	36,374
Jun	99.50	99.48	+0.02	99.50	99.50	2	12

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
96	3.98	3.48	3.57	-	0.01	0.12
97	2.98	2.50	2.68	-	0.02	0.23
98	1.98	1.55	1.88	-	0.07	0.42
99	0.98	0.71	1.20	-	0.23	0.72
100	-	0.19	0.67	0.02	0.71	1.18

Est. vol. total, Calls 8,352 Puts 25,914. Previous day's open int., Calls 58,461 Puts 75,757.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	104.34	104.22	-0.05	104.39	104.08	164166	149747
Mar	103.63	103.52	-0.05	103.68	103.38	135431	124820

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
10350	0.40	0.68	0.90	1.07	0.38	0.66	0.88	1.75
10400	0.19	0.45	0.66	0.87	0.67	0.93	1.14	2.05
10450	0.07	0.28	0.47	0.71	1.05	1.26	1.45	2.39

Est. vol. total, Calls 7150 Puts 13982. Previous day's open int., Calls 117836 Puts 122474

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	104.33	104.17	–0.12	104.38	104.07	139,158	183,386
Mar	103.60	103.50	–0.09	103.67	103.39	71,575	101,263

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	104.16	104.00	-0.11	104.16	103.92	7,963	9,268
Mar	103.46	103.39	-0.09	103.50	103.33	2,801	6,068

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	114.22	114.05	-0.09	114.40	113.97	18345	25537
Mar	114.69	114.47	-0.15	114.92	114.35	48740	98414

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
11400	1.25	1.72	0.78	1.25
11450	0.97	1.46	1.00	1.49
11500	0.73	1.22	1.26	1.75

Est. vol. total, Calls 976 Puts 712. Previous day's open int., Calls 26001 Puts 29406

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	105.35	105.32	–0.12	105.40	105.09	91,986	102,283
Mar	104.94	104.87	–0.13	104.94	104.65	3,670	9,098

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	119-15	119-05	-0-05	119-18	118-31	15367	54512
Mar	120-04	119-24	-0-08	120-08	119-16	66509	149426

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
119	1-10	1-36	1-58	0	0-26	0-52	1-10	14-56
120	0-37	1-00	1-22	0	0-53	1-16	1-38	15-56
121	0-17	0-38	0-59	0	1-33	1-54	2-11	16-56

Est. vol. total, Calls 2006 Puts 2550. Previous day's open int., Calls 38708 Puts 19691

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	99.68	99.56	-0.04	100.00	99.56	680	8,643
Mar	99.76	99.30	-0.04	99.76	99.76	1	679

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	119-10	119-12	+0-02	119-20	119-07	77,503	219,685
Mar	119-05	119-07	+0-03	119-15	119-01	254,365	456,999
Jun	118-31	118-29	+0-03	118-31	118-28	1,465	14,805

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	130.86			130.92	130.76	3246	n/a
Mar	129.98			130.10	129.92	4445	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Dec 2	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA–	103.8246	6.27	–	+0.06	+0.45
NY Tel	08/25	7.00	A+	98.2462	7.14	–	+0.01	+1.11
CWE	05/08	8.00	BBB	108.6739	6.82	–	+0.02	+0.97
■ FINANCIALS								
GECC	05/07	8.75	AAA	116.3404	6.41	–0.01	+0.04	+0.56
Banc One	08/02	7.25	A+	103.6220	6.33	–0.01	+0.09	+0.51
US West	01/07	7.30	BBB+	102.6863	6.89	–0.01	–	+1.04
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A–	99.5542	6.59	+0.02	+0.35	+0.84
Wal Mart	05/02	6.75	AA	101.9595	6.23	–0.01	+0.07	+0.41
Dayton Hud	06/21	9.70	BBB+	129.1984	7.12	–	–0.10	+1.09
■ AGENCIES								
FHLMC	04/07	7.14	N/A	106.9768	6.14	–	+0.03	+0.29
SLMA	03/00	7.50	N/A	103.2709	5.92	–0.01	+0.14	+0.14
FNMA	02/18	8.95	N/A	128.3358	6.42	–	–0.11	+0.39
FFCB	06/06	8.95	N/A	118.2811	6.15	–0.01	+0.04	+0.30
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.8750	0.00	-	-	-
AK Stl	12/01	9.13	BB–	103.2500	0.00	-	-	-
Pacelta	06/04	10.75	B–	99.1250	0.00	-	-	-

New York closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.78
Prime rate	8½	Two month	-	Three year	5.80
Broker loan rate	7¾	Three month	5.24	Five year	5.82
Fed.funds	5¾	Six month	5.42	10-year	5.85
Fed.funds at intervention	-	One year	5.53	30-year	6.03

INTERNATIONAL BONDS

Dec 3	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	101.9000	5.48	+0.01	–0.24	+0.06
Spain	01/07	5.750	AA	101.2200	5.57	+0.01	–0.22	+0.15
Philip Morris	03/04	5.375	A	98.7900	5.60	–0.01	–0.13	+0.38
ABN Amro FRN	03/05	3.625	n/a	99.6253	5.45	+0.02	–0.15	+0.13
■ EURO FFR								
Austria	01/04	5.500	AAA	101.4800	5.21	+0.04	–0.18	+0.04
Abbey Nat	02/04	6.000	AA	103.5000	5.32	+0.04	–0.13	+0.15
Cred Foncier	02/04	9.125	A	117.5600	5.68	+0.01	–0.08	+0.51
Abbey Nat FRN	09/06	4.510	n/a	101.7308	4.27	+0.02	–0.21	–1.06
■ EURO LIRA								
EIB	02/07	7.000	AAA	108.8500	5.73	+0.01	–0.30	–0.08
Abbey Nat	02/02	6.800	AA	104.7500	5.49	+0.03	–0.26	+0.08
Walt Disney	06/00	8.625	n/a	107.2000	5.48	+0.04	–0.31	+0.36
Abbey Nat FRN	03/07	8.000	AA	104.1389	6.83	+0.03	–0.72	+1.02
■ EURO £								
EIB	12/07	7.625	AAA	106.0500	6.77	–0.05	–0.14	+0.28
Dresdner Bk	12/07	7.750	AA–	103.5412	7.24	+0.01	+0.08	+0.75
RBS	01/07	8.375	A+	108.2787	7.40	+0.01	–0.01	+0.91
Abbey Nat FRN	02/02	7.830	AA	100.0294	6.75	+0.01	+0.06	-0.01
■ EURO $								
EIB	04/07	7.250	AAA	108.9577	6.24	–0.03	–0.11	+0.41
ABN Amro	06/07	7.125	AA–	103.9533	6.56	–0.01	–0.13	+0.73
Quebec	01/07	7.000	A+	103.0478	6.55	–0.03	–0.11	+0.72
Citicorp FRN	02/04	5.938	A+	99.8784	6.00	–0.03	+0.08	+0.19
■ EURO C$								
Bayer L–Bk	08/04	9.500	AAA	119.9560	5.80	–0.03	+0.04	+0.16
Toronto	05/04	8.500	AA+	114.6244	6.72	–0.03	+0.04	+0.10
Bell Canada	07/99	10.625	A+	108.0770	5.20	–0.04	+0.25	+0.18
Deutsche B FRN	09/02	5.875	AAA	101.6773	5.47	–0.03	+0.09	-
■ EURO YEN								
World Bank	03/02	5.250	AAA	117.4000	1.08	+0.01	–0.06	-
Spain	03/02	5.750	AA	119.4000	1.10	–0.04	–0.09	+0.02
Cred Foncier	09/02	4.750	A	114.2022	1.57	–0.02	–0.01	+0.49
Italy FRN	07/99	0.594	AA	100.3673	0.30	+0.04	+0.04	–0.17

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed Dec 3	Day's change %	Tue Dec 2	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	118.76	0.00	118.76	1.65	10.39
2 5-15 years (20)	156.41	–0.13	156.61	1.55	11.88
3 Over 15 years (4)	188.08	–0.34	188.73	0.91	14.12
4 Irredeemables (4)	228.99	–0.73	230.68	1.30	14.48
5 All stocks (47)	149.45	–0.13	149.64	1.53	11.88
Index-linked					
6 Up to 5 years (2)	211.50	0.01	211.49	1.06	6.09
7 Over 5 years (10)	215.78	–0.05	215.88	1.45	5.78
8 All stocks (12)	214.25	–0.04	214.34	1.41	5.76

UK Indices

	Low coupon yield Dec 3	Low Dec 2	Low Yr. ago	Medium coupon yield Dec 3	Medium Dec 2	Medium Yr. ago	High coupon yield Dec 3	High Dec 2	High Yr. ago
5 yrs	6.68	6.68	7.06	6.79	6.78	7.11	6.82	6.82	7.15
15 yrs	6.51	6.48	7.50	6.46	6.43	7.47	6.56	6.52	7.53
20 yrs	6.51	6.48	7.56	6.44	6.41	7.50	6.55	6.51	7.57
Irred.†	6.55	6.50	7.60						

	Inflation 5% Dec 3	Dec 2	Yr. ago	Inflation 10% Dec 3	Dec 2	Yr. ago
Up to 5 yrs	3.17	3.17	3.09	2.45	2.45	2.43
Over 5 yrs	3.08	3.07	3.44	2.88	2.87	3.24

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 3	Dec 2	Dec 1	Nov 28	Nov 27	Yr ago	High*	Low*
Govt. Secs. (UK)	100.26	100.57	100.33	100.38	100.07	95.41	101.83	93.31
Fixed Interest	132.57	132.30	132.06	132.06	131.66	117.82	133.64	115.32

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. § Indicative price.

CURRENCIES AND MONEY

Korean deal cheers Asian currencies

MARKETS REPORT

By Simon Kuper

The South Korean won surged yesterday from record lows, after Korea and the International Monetary Fund agreed a $55bn package to bail out the country's economy. South east Asian currencies also bounced when the deal was signed, three days after Korea had prematurely announced it.

Joe Prendergast, head of global forex research at Credit Suisse First Boston in London, said: "This is a very significant package in terms of its size and its substance. It reduces the need for a savage won deterioration and for a harsh, market-imposed discipline." Currency strategists said the package would allow Korea's indebted banks and companies at least to finance their short-term debts.

However, they warned that much of the detail of the package was as yet unknown, and that it remained to be seen whether it would be fully implemented. They said Asia's financial crisis might not be over yet, given the various political and economic doubts surrounding the continent.

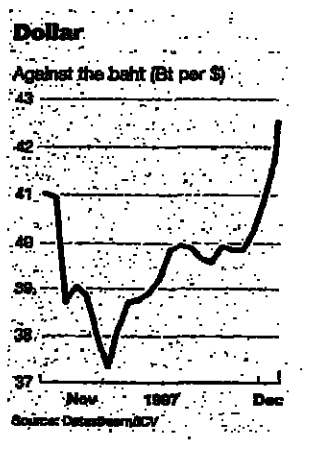
The won, which had slumped to 1,290 against the dollar early in the day, jumped to 1,195 after the deal. That was 2.7 per cent above late Tuesday's levels.

■ The news from Korea buoyed the yen, which largely shrugged off weaker than expected Japanese gross domestic product figures for the third quarter. The currency closed in London barely changed against the dollar at Y128.6.

The D-Mark firmed after the second Bundesbank council member in two days emphasised that a weaker currency could prompt a rate rise. Ernst Welteke yesterday said that another rise in rates was not on the agenda, but warned that a strong rise in the dollar could change the situation. His colleague Reimut Jochimsen had said much the same on Tuesday. A strong rise in German industrial production for October also helped the D-Mark.

It gained 0.7 pfennigs against both the dollar and the pound to close at DM1.768 and DM2.978 respectively. But the so-called "major" currencies were a sideshow yesterday.

■ Korea is the world's eleventh largest economy, as big as the stricken south east Asian countries put together. But does its bailout package bring the end of the continent's financial crisis any nearer?



Currency strategists are wary of saying so, partly because contagion has been so strong in Asian markets in recent months. No sooner has one country taken the IMF antibiotic, then another hits trouble and Asian stocks and currencies slide again. Asia appears to have more than its fair share of crises, strategists say. Desmond Lachman, head of emerging markets research at Salomon Brothers in New York, notes: "Malaysia has still to come up with credible programmes to solve its problems. India is without a government." Mahathir Mohamad, Malaysia's prime minister, said yesterday: "Of course it (the ringgit) is going to go even lower. It's what they (foreigners) want to do to us, make us poor and then ask us why don't you buy these things they want to sell to us."

Mr Lachman noted that Malaysia and India were smaller players in the world economy than Korea, so that any crises there should have limited global impact. But there were other problems. Some strategists predict that China will rattle Asian markets by devaluing, since so many of its neighbours have.

And Korea itself faces presidential elections in a fortnight. Mr Lachman says there is still a worry that the winning candidate might try reneging on parts of the IMF package. Kim Dae-jung, the centre-left opposition leader, yesterday said he would refuse to sign any guarantee with the IMF because "it violated national pride," but he did signal general compliance with the measures.

Rob Hayward, senior economist at Bank of America in London, said that if the IMF package prompted large corporate bankruptcies in Korea, the won could suffer on a day-to-day basis.

Mr Lachman summed up: "The Korean news is certainly positive, but whether Asia has turned a corner remains to be seen."

■ Pound in New York

Dec 3	—Latest—	— Prev. close —
£ spot	1.6845	1.6805
1 mth	1.6823	1.6781
3 mth	1.6772	1.6734
1 yr	1.6655	1.6521

■ OTHER CURRENCIES

Dec 3	£	$
Czech Rp	58.6614 - 58.7788	34.8470 - 34.8950
Hungary	336.411 - 336.895	199.840 - 199.890
Iran	5053.20 - 5050.20	3000.00 - 3000.00
Kuwait	0.5124 - 0.5129	0.3044 - 0.3045
Poland	5.9559 - 5.9645	3.5380 - 3.5410
Russia	9996.03 - 10007.02	5938.00 - 5941.00
U.A.E.	6.1830 - 6.1868	3.6729 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Dec 3		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.9543	-0.0556	445 - 640	21.0588	20.9394	20.8864	3.9	20.7589	3.7	20.2396	3.4	102.5
Belgium	(BFr)	61.4287	-0.1604	768 - 806	61.7420	61.3730	61.2142	4.2	60.8295	3.9	59.2783	3.5	102.0
Denmark	(DKr)	11.3364	-0.0259	313 - 414	11.3919	11.3266	11.3004	3.8	11.2348	3.6	10.9722	3.2	104.3
Finland	(FM)	9.0015	-0.024	947 - 083	9.0470	8.9940	8.9692	4.3	8.9134	3.9	8.6929	3.4	80.8
France	(FFr)	9.9686	-0.0263	632 - 700	10.0169	9.9587	9.9322	4.1	9.8694	3.9	9.6127	3.6	105.4
Germany	(DM)	2.9777	-0.0077	764 - 790	2.9935	2.9749	2.968	3.9	2.9493	3.8	2.8733	3.5	103.1
Greece	(Dr)	467.148	-1.036	588 - 707	469.350	466.541	469.457	-5.9	474.937	-6.7	491.855	-5.3	65.6
Ireland	(I£)	1.1442	+0.0015	431 - 453	1.1455	1.1421	1.1431	1.2	1.14	1.5	1.1175	2.3	98.9
Italy	(L)	2918.62	-5.3	691 - 033	2930.26	2913.82	2915.23	1.4	2907.2	1.6	2850.54	2.3	75.9
Luxembourg	(LFr)	61.4287	-0.1604	768 - 806	61.7420	61.3630	61.2142	4.2	60.8295	3.9	59.2783	3.5	102.0
Netherlands	(Fl)	3.3556	-0.0086	540 - 572	3.3727	3.3527	3.344	4.1	3.3232	3.9	3.2371	3.5	101.3
Norway	(NKr)	12.0391	-0.0665	313 - 468	12.1856	12.0309	11.997	4.2	11.924	3.8	11.643	3.3	99.5
Portugal	(Es)	304.180	-0.804	005 - 354	305.212	303.860	303.546	2.5	302.185	2.6	295.242	2.9	91.5
Spain	(Pta)	251.600	-0.762	500 - 700	252.720	251.380	251.06	2.6	249.9	2.7	244.09	3.0	76.9
Sweden	(SKr)	13.0553	-0.0448	472 - 634	13.1138	13.0274	13.0199	3.3	12.9611	2.9	12.7486	2.3	85.2
Switzerland	(SFr)	2.4041	-0.0058	025 - 057	2.4138	2.4005	2.3921	6.0	2.3694	5.8	2.2712	5.5	108.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	105.3
Ecu	-	1.5020	-0.0037	010 - 029	1.5088	1.5005	1.4979	3.3	1.4904	3.1	1.4572	3.0	-
SDR†	-	1.238364	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6836	+0.0015	831 - 841	1.6845	1.6795	-	-	-	-	-	-	-
Brazil	(R$)	1.8693	+0.0035	686 - 699	1.8705	1.8634	-	-	-	-	-	-	-
Canada	(C$)	2.3875	-0.0045	864 - 886	2.3890	2.3832	2.3801	3.7	2.3671	3.4	2.3174	2.9	83.0
Mexico	(New Peso)	13.6943	-0.0224	860 - 026	13.7142	13.6433	13.8422	-13.0	14.1213	-12.5	15.2976	-11.7	-
USA	($)	1.6839	+0.0016	834 - 844	1.6852	1.6798	1.6816	1.6	1.6766	1.7	1.6551	1.7	107.5
Pacific/Middle East/Africa													
Australia	(A$)	2.4908	+0.0124	884 - 932	2.4996	2.4724	2.4853	2.6	2.4748	2.6	2.4321	2.4	87.1
Hong Kong	(HK$)	13.0267	+0.0099	219 - 314	13.0319	12.9991	13.03	-0.3	13.1045	-2.4	13.4413	-3.2	-
India	(Rs)	66.1268	+0.0712	735 - 801	65.7700	65.8840	-	-	-	-	-	-	-
Israel	(Shk)	5.9374	+0.0001	288 - 459	5.9460	5.9251	-	-	-	-	-	-	-
Japan	(Y)	216.609	+0.122	502 - 715	217.030	215.730	215.209	7.8	212.599	7.4	201.229	7.1	119.2
Malaysia	(M$)	6.1602	+0.1077	503 - 700	6.1821	6.0557	6.156	0.8	6.1629	-0.2	6.2788	-1.9	-
New Zealand	(NZ$)	2.7827	+0.0123	802 - 851	2.7872	2.7634	2.7818	0.4	2.782	0.1	2.7818	0.0	104.9
Philippines	(Peso)	59.3154	+0.3507	715 - 593	59.9699	58.7786	60.074	-15.3	61.4163	-14.2	66.6396	-12.3	-
Saudi Arabia	(SR)	6.3158	+0.0054	136 - 175	6.3186	6.3003	6.3091	1.2	6.294	1.4	6.2227	1.5	-
Singapore	(S$)	2.7157	+0.0072	136 - 178	2.7203	2.7008	2.72	-1.9	2.7208	-0.7	2.7038	0.5	-
South Africa	(R)	8.1855	+0.0095	805 - 904	8.1977	8.1720	8.2467	-9.0	8.3488	-8.0	8.7515	-6.9	-
South Korea	(Won)	2015.63	-50.23	166 - 960	2168.10	2002.18	-	-	-	-	-	-	-
Taiwan	(T$)	54.2645	+0.0582	408 - 882	54.2902	54.1400	54.2094	1.2	54.0844	1.3	53.5234	1.4	-
Thailand	(Bt)	71.6079	+1.406	603 - 554	71.9270	69.5300	72.0909	-8.1	72.4887	-4.9	74.938	-4.6	-

† Rates for Dec 1. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling Index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	12.4439	-0.0449	418 - 460	12.5163	12.4350	12.4204	2.3	12.3814	2.0	12.2284	1.7	102.3
Belgium	(BFr)	36.4800	-0.13	600 - 000	36.7050	36.4500	36.402	2.5	36.281	2.2	35.815	1.8	102.0
Denmark	(DKr)	6.7322	-0.0218	312 - 332	6.7716	6.7279	6.7198	2.2	6.7008	1.9	6.6292	1.5	103.7
Finland	(FM)	5.3457	-0.0193	432 - 481	5.3778	5.3423	5.3338	2.7	5.3164	2.2	5.2522	1.7	80.3
France	(FFr)	5.9188	-0.0212	185 - 190	5.9526	5.9140	5.9064	2.5	5.8865	2.2	5.8079	1.9	105.0
Germany	(DM)	1.7684	-0.0062	681 - 686	1.7790	1.7667	1.7651	2.3	1.7591	2.1	1.736	1.8	102.8
Greece	(Dr)	277.420	-0.88	170 - 670	279.010	277.000	279.17	-7.5	283.27	-8.4	297.17	-7.1	65.5
Ireland	(I£)	1.4717	-0.0005	707 - 727	1.4732	1.4688	1.4712	0.4	1.4707	0.3	1.4812	-0.6	-
Italy	(L)	1733.25	-4.8	275 - 375	1741.90	1731.85	1733.59	-0.2	1733.96	-0.2	1722.25	0.6	75.7
Luxembourg	(LFr)	36.4800	-0.13	600 - 000	36.7050	36.4500	36.402	2.6	36.281	2.2	35.815	1.8	102.0
Netherlands	(Fl)	1.9928	-0.007	924 - 931	2.0048	1.9910	1.9886	2.5	1.9821	2.1	1.9558	1.9	101.2
Norway	(NKr)	7.1495	-0.0583	470 - 520	7.2499	7.1457	7.1342	2.6	7.1119	2.1	7.0345	1.6	98.5
Portugal	(Es)	180.640	-0.65	590 - 690	181.350	180.490	180.508	0.9	180.222	0.9	178.38	1.3	92.1
Spain	(Pta)	149.415	-0.595	400 - 430	150.240	149.300	149.297	0.9	149.05	1.0	147.475	1.3	76.5
Sweden	(SKr)	7.7530	-0.034	505 - 555	7.8012	7.7475	7.7425	1.6	7.7305	1.2	7.7025	0.7	85.0
Switzerland	(SFr)	1.4277	-0.0048	272 - 282	1.4352	1.4257	1.4224	4.4	1.4131	4.1	1.3722	3.9	108.3
UK	(£)	1.6839	+0.0016	834 - 844	1.6845	1.6798	1.6816	1.6	1.6766	1.7	1.6551	1.7	105.1
Ecu	-	1.1212	+0.0039	208 - 215	1.1217	1.1152	1.1227	-1.7	1.1251	-1.4	1.1359	-1.3	-
SDR†	-	0.73533	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-0.0001	996 - 998	0.9999	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	1.1101	+0.001	100 - 101	1.1105	1.1098	-	-	-	-	-	-	-
Canada	(C$)	1.4179	-0.004	176 - 181	1.4199	1.4160	1.4154	2.1	1.4119	1.7	1.4002	1.3	82.9
Mexico	(New Peso)	8.1325	-0.021	300 - 350	8.1355	8.1295	8.2315	-14.6	8.4225	-14.3	9.2425	-13.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	108.6
Pacific/Middle East/Africa													
Australia	(A$)	1.4792	+0.006	782 - 802	1.4841	1.4718	1.4784	0.6	1.4758	0.9	1.4651	1.0	86.2
Hong Kong	(HK$)	7.7380	-0.0015	355 - 385	7.7405	7.7345	7.7485	-1.9	7.816	-4.1	8.121	-5.0	-
India	(Rs)	39.2700	+0.005	500 - 900	39.6900	39.1400	-	-	-	-	-	-	-
Israel	(Shk)	3.5260	-0.0033	219 - 300	3.5305	3.5200	-	-	-	-	-	-	-
Japan	(Y)	128.635	-0.05	610 - 660	128.980	128.300	127.98	6.1	126.795	5.7	121.575	5.5	120.5
Malaysia	(M$)	3.6583	+0.0605	535 - 630	3.6750	3.6030	3.6608	-0.8	3.6758	-1.9	3.7933	-3.7	-
New Zealand	(NZ$)	1.6525	+0.0057	515 - 534	1.6549	1.6441	1.6556	-2.3	1.661	-2.1	1.6798	-1.7	-
Philippines	(Peso)	35.2250	+0.175	500 - 000	35.7000	34.9000	35.724	-17.0	36.631	-16.0	40.2515	-14.3	-
Saudi Arabia	(SR)	3.7506	-0.0003	505 - 506	3.7508	3.7503	3.7519	-0.4	3.754	-0.4	3.7597	-0.2	-
Singapore	(S$)	1.6128	+0.0028	120 - 135	1.6170	1.6072	1.6176	-3.5	1.6226	-2.5	1.6333	-1.3	-
South Africa	(R)	4.8610	+0.001	595 - 625	4.8690	4.8585	4.904	-10.6	4.9792	-9.7	5.2875	-8.8	-
South Korea	(Won)	1197.00	-31	500 - 900	1290.00	1190.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.2255	+0.004	210 - 300	32.2450	32.2000	32.2365	-0.4	32.258	-0.4	32.338	-0.3	-
Thailand	(Bt)	42.5250	+0.795	500 - 000	42.9500	41.3500	42.87	-9.7	43.235	-6.7	45.275	-6.5	-

† SDR rate per $ for Dec 1. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 1: Base average 1990=100.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

December 3	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.02
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	2	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	6	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.25	5.45	5.53	5.67	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 3	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate [illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

* LIFFE futures also traded on APT

■ EUROMARK OPTIONS (LIFFE) DM1000m points of 100%

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 3		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.22	4.848	1.863	4751	5.463	19.60	495.2	409.6	21.25	3.914	1.628	3.887	2.741	352.6	2.445
Denmark	(DKr)	54.19	10	8.792	2.627	1.009	2575	2.960	10.62	268.3	221.9	11.52	2.121	0.882	2.106	1.485	191.1	1.325
France	(FFr)	61.63	11.37	10	2.988	1.148	2928	3.367	12.08	305.2	252.4	13.10	2.412	1.003	2.396	1.690	217.3	1.507
Germany	(DM)	20.63	3.807	3.347	1	0.384	980.1	1.127	4.043	102.1	84.49	4.384	0.807	0.336	0.802	0.565	72.74	0.504
Ireland	(I£)	53.69	9.908	8.711	2.603	1	2551	2.933	10.52	265.8	219.9	11.41	2.101	0.874	2.087	1.472	189.3	1.313
Italy	(L)	2.105	0.388	0.341	0.102	0.039	100	0.115	0.413	10.42	8.621	0.447	0.082	0.034	0.082	0.058	7.422	0.051
Netherlands	(Fl)	18.31	3.378	2.970	0.887	0.341	869.8	1	3.588	90.65	74.98	3.891	0.716	0.298	0.712	0.502	64.55	0.448
Norway	(NKr)	51.02	9.416	8.279	2.473	0.950	2424	2.787	10	252.7	209.0	10.84	1.997	0.831	1.983	1.399	179.9	1.248
Portugal	(Es)	20.19	3.727	3.277	0.979	0.376	959.5	1.103	3.958	100	82.71	4.292	0.790	0.329	0.785	0.554	71.21	0.494
Spain	(Pta)	24.42	4.506	3.961	1.184	0.455	1160	1.334	4.785	120.9	100	5.189	0.958	0.397	0.949	0.669	86.09	0.597
Sweden	(SKr)	47.05	8.683	7.634	2.281	0.876	2236	2.570	9.222	233.0	192.7	10	1.841	0.766	1.829	1.290	165.9	1.150
Switzerland	(SFr)	25.55	4.715	4.146	1.239	0.476	1214	1.396	5.008	126.5	104.7	5.430	1	0.416	0.993	0.700	90.10	0.625
UK	(£)	61.43	11.34	9.967	2.978	1.144	2919	3.356	12.04	304.2	251.6	13.06	2.404	1	2.388	1.684	216.6	1.502
Canada	(C$)	25.73	4.748	4.174	1.247	0.479	1222	1.405	5.042	127.4	105.4	5.468	1.007	0.419	1	0.705	90.72	0.629
USA	($)	36.48	6.732	5.919	1.768	0.679	1733	1.993	7.150	180.6	149.4	7.753	1.428	0.594	1.418	1	128.6	0.892
Japan	(Y)	28.36	5.234	4.601	1.375	0.528	1347	1.549	5.558	140.4	116.2	6.027	1.110	0.462	1.102	0.777	100	0.693
Ecu	-	40.90	7.548	6.636	1.983	0.762	1943	2.234	8.016	202.5	167.5	8.693	1.601	0.666	1.590	1.121	144.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5631	0.5648	+0.0020	0.5653	0.5625	17,669	68,971
Mar	0.5665	0.5678	+0.0021	0.5685	0.5655	2,228	9,863
Jun	-	0.5690	+0.0006	0.5700	-	1	4,109

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7786	0.7780	+0.0012	0.7805	0.7768	20,399	132,601
Mar	0.7913	0.7897	+0.0015	0.7913	0.7888	2,996	9,260
Jun	-	0.8010	+0.0016	-	-	53	1,587

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6988	0.6990	-0.0001	0.7008	0.6977	12,583	43,929
Mar	0.7055	0.7061	-0.0001	0.7078	0.7050	2,509	7,222
Jun	-	0.7135	+0.0001	0.7135	-	4	1,293

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6800	1.6820	-0.0022	1.6826	1.6788	4,712	52,637
Mar	1.6736	1.6740	-0.0026	1.6758	1.6718	818	3,783
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK INTEREST RATES

LONDON MONEY RATES

Dec 3	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible] - 5	7 3/8 - 7 1/4	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	7 1/4 - 7 1/8	[illegible]	-	-
Bank Bills	-	-	7 1/4 - 7 1/8	[illegible]	[illegible]	-
Local authority deps.	7 1/8 - 7	7 1/4 - 7 1/8	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	7 1/4 - 7 1/8	7 1/4 - 7	-	-	-	-

UK clearing bank base lending rate 7 1/4 per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2 1/2	5 1/2	5	5	4 3/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc.
Ave. tender rate of discount on Nov 28, 7.1330pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 28, 1997. Agreed rate for period Dec 24, 1997 to Jan 26, 1998, Scheme III 8.84pc. Reference rate for period Nov 1, 1997 to Nov 28, 1997, Schemes IV & V 7.601pc. Finance House Base Rate 7 1/2pc from Dec 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9225	0.07	0.13	0.24	0.04	0.16	0.29
9250	0.01	0.03	0.12	0.23	0.31	0.36
9275	0	0.01	0.05	0.47	0.54	0.54

Est. vol. total, Calls 1199 Puts 1115. Previous day's open int., Calls 238899 Puts 235573

■ EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25	* In administration	
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.00		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

COMMODITIES AND AGRICULTURE

Gold drops on reports of Argentine sales

MARKETS REPORT

By Kenneth Gooding, Mining Correspondent

The price of gold plunged to a fresh 12½-year low yesterday after Argentina's central bank revealed that it had sold all its gold reserves during the first half of this year.

The bank said it had sold 4.013m ounces, or 124.4 tonnes, at an average of $370 an ounce and for a total of $1.46bn. This was invested in US Treasury bonds.

Echoing the views of other central banks that complain gold is an unproductive asset, Argentine's bank pointed out the bonds would yield an average of 5 per cent and were expected to bring in $81m a year.

The bank said it also planned to sell some of its gold coin holdings in the near future, leaving it with only 50,000, kept because of their historic significance.

Dealers said the downward pressure on prices was intensified yesterday because the Australian dollar fell to a four-year low against the US currency and this had encouraged Australian producers to sell gold forward.

Some of the US investment funds that have made a killing from the bear sentiment by selling short – selling gold they do not own in the expectation they can buy it at a lower price before they have to deliver – took some profits later yesterday and the price recovered to close in London at $292.75 an ounce, down $1.70 from Tuesday's close.

Worries about central bank sales have been driving down the gold price for more than a year. The fall became precipitous after Australia's central bank revealed in July it had sold 167 tonnes, roughly two-thirds of its reserves.

In September the Gold Fields Mineral Services consultancy said there were indications in the market that a central bank had sold about 200 tonnes over some weeks in the first half of this year. It suggested then it was probably a European bank.

However, Stewart Murray, GFMS managing director, said yesterday that the Argentine sale was almost certainly the one they had got wind of. He was now very satisfied about the accuracy of GFMS's estimate that central bank and other official sales totalled 220 tonnes net in the first half. In September GFMS indicated that central bank gold transactions totalled 766 tonnes in the first half, consisting of 493 tonnes of sales and 273 tonnes of purchases.

Gold is now nearly 20 per cent below its highest level this year of $360 an ounce. Traders suggest that US funds now are targeting $285, a level last reached in February 1985 at the London "fix." Gold traded as low as $283.50 an ounce on that day.

On the London Metal Exchange prices came under renewed pressure from banks and investment funds. Copper closed near 17 month lows, zinc fell to a 10½-month low and nickel at one point was at its lowest for four years. Traders said the downward trend reflected the fact that stocks were rising while demand prospects were weakening because of slowing economic growth in Asia.

Indian sugar industry 'snubbed'

By Kunal Bose in Calcutta

India's Commerce Ministry has snubbed the country's sugar industry by recommending that the government should import 500,000 tonnes of sugar for distribution through ration shops.

The Indian Sugar Mills Association had urged the government to buy from the industry, which at the end of October had comfortable stocks of 5.4m tonnes.

The government says the public distribution system for sugar will remain under pressure in the 1997-98 season and that it is essential to "keep the import option open". On current projections it will be left with no stocks in the final month of the current season unless imports are made.

Nearly 33 per cent of the industry's production is bought by the government at below market rates for distribution through ration shops. The industry is allowed to sell the balance at market prices.

Om Dhanuka of the ISMA said the industry could take care of this shortfall. "This is in spite of the lower projections for cane and sugar production in the current season," he added.

The country's sugar production is forecast to fall to 12m tonnes in 1997-98 from 12.9m tonnes last time.

"The fall will be as much as 37 per cent compared with the all-time record output of 16.452m tonnes in 1995-96," said Mr Dhanuka.

"Except for Tamil Nadu, Andhra Pradesh and Gujarat, every sugar growing state will be producing less this season. The production setback will be most pronounced in Maharashtra, the largest sugar growing state in the country, where at least 35 of the 110 factories will have very little cane to crush."

Sights lowered for base metal prices

Asia's financial turmoil has prompted analysts to cut 1998 price forecasts for base metals – for some, substantially.

While it is too early to tell how badly slowing growth in Asia will affect global economic activity, analysts studying those metals traded on the London Metal Exchange can be pretty sure of falling prices.

In the past 10 years the region – excluding Japan – has become increasingly important to the traded metals business. For example, its share of global copper demand has risen from 7 per cent to 20 per cent, while aluminium's share has more than doubled from 7 per cent to 16 per cent.

Developing countries absorb huge tonnages of metal as they build the infrastructure to support new industries. A substantial quantity of the metal Asia imports is also converted into goods for export, such as cars, television sets and computers. So analysing the impact of the present turmoil is difficult.

"We believe it will be many months before we have a firm handle on the Asian situation," said Tony Warwick-Ching, analyst at Flemings Global Mining Group. "The key will be whether a worrying structural change has occurred with a dislocation in trend growth, as happened twice to OECD industrial production, notably in 1975, following the oil price shocks."

Nevertheless, metals analysts have been doing the best they can. Ted Arnold, metals specialist at Merrill Lynch, summed up the broad consensus. "One can say with confidence that the risk is now on the downside with all base metal prices. Six to nine months ago the risk was on the upside."

After discussions with his merchant and producer contacts, Mr Arnold said the two weakest markets were seen as copper and nickel. "'You can forget both of them for the next three years,' was the comment of one merchant," said Mr Arnold. "Zinc and aluminium are seen as promising in that both those prices will hold up relatively well compared with other metals."

Mr Arnold has lowered his copper price forecast for next year from 90 cents a pound ($1,984 a tonne) to 85 cents ($1,874) compared with an average so far this year of about 105.8 cents ($2,332) and 103.9 cents ($2,290) for 1996. His nickel price forecast has been cut from $3.05 a pound ($6,724) to $2.85 ($6,283) against $3.18 ($7,022) this year and $3.4 ($7,500) in 1996.

Merrill has also lowered its zinc 1998 average price forecast from 57 cents ($1,256) to 52 cents ($1,146) and shaved its lead forecast from 26 cents ($573) to 25 cents ($551). So far this year these prices have averaged 60.8 cents ($1,340) and 28.8 cents ($638) respectively.

Analysts at Deutsche Morgan Grenfell are among the most bullish about traded metals prices. Their latest forecasts are still at the top end of expectations, even though they have been substantially reduced.

Alan Williamson, a DMG analyst, said that after re-examining demand prospects on a country by country basis, DMG believed the Asian turmoil would cut 1998 global copper consumption by 190,000 tonnes, aluminium's by 170,000 tonnes, zinc's by 95,000 tonnes and nickel's by 20,000 tonnes.

These losses would come at a time when supplies of most base metals were rising. "So, instead of most metal stocks falling to critical levels late in 1998, there will be surpluses," he said.

DMG is now expecting a 1998 average of 82 cents a pound for aluminium (down from 90 cents), 95 cents for copper (107.5 cents), $3 for nickel ($4), 56 cents for zinc (75 cents), 27 cents for lead (33 cents) and $2.70 for tin (down from $3).

Analysts from Macquarie, the Australian banking group, have been touring Asia talking to traders, producers and consumers and, said Adam Rowley, there may be further demand weakness to come.

Macquarie's revised 1998 forecasts, with the previous ones in brackets, are: aluminium 75 cents (82.5), copper 87.5 cents (95), lead 24.5 cents (26.5), nickel $3.05 ($3.50), tin $2.625 ($2.75) and zinc 57.5 cents (68).

Zinc, downgraded most by Macquarie, suffered similarly when Paribas, the French bank, changed its forecasts. Charles Kernot at Paribas said this was because the impact of the Asian turmoil would be felt most strongly by those metals close to the peak of their price cycles: notably aluminium and zinc.

Paribas has cut its 1998 zinc forecast by 10.4 per cent to $1,403 a tonne while aluminium is reduced by 4.3 per cent to $1,750. Other changes include copper down 3 per cent to $1,947; lead down 2.2 per cent to $711; nickel down 2.1 per cent to $7,338 and tin down 2 per cent to $6,006.

Meanwhile, there was growing concern among analysts. "No one knows when [the Asian upheaval] will stop and how far it will go before it stops," said Angus MacMillan, head of research at Billiton Metals. "The biggest worry is that the Japanese economy might go into recession. That would have knock-on effects worldwide," he said.

Kenneth Gooding

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1561-2	1584-5
Previous	1567-68	1589-90
High/low		1597/1582
AM Official	1568-68	1590-91
Kerb close		1586-7
Open int.	254,507	
Total daily turnover	93,984	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1430-40	1450-55
Previous	1440-45	1455-60
High/low		1465/1450
AM Official	1435-40	1456-57
Kerb close		1450-55
Open int.	6,014	
Total daily turnover	1,109	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	517-8	534-5
Previous	514.5-15.5	531.5-32.0
High/low		544/533
AM Official	519-19.5	536-37
Kerb close		542/543
Open int.	32,554	
Total daily turnover	8,848	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5860-65	5955-60
Previous	5975-80	6085-70
High/low		5980/5910
AM Official	5850-55	5945-50
Kerb close		5970-75
Open int.	59,361	
Total daily turnover	27,968	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5720-30	5640-45
Previous	5765-70	5685-70
High/low		5685/5650
AM Official	5760-65	5675-80
Kerb close		5660-65
Open int.	15,082	
Total daily turnover	3,673	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1084.5-5.5	1110-11
Previous	1109-10	1134-35
High/low		1142/1108
AM Official	1096-97	1122-23
Kerb close		1118-9
Open int.	85,150	
Total daily turnover	27,150	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1776.5-7.5	1808.5-9.5
Previous	1793-94	1822-23
High/low		1839/1806
AM Official	1801-01.5	1831-32
Kerb close		1806-9
Open int.	159,764	
Total daily turnover	46,978	

■ LME AM Official £/$ rate: 1.6903
LME Closing £/$ rate: 1.6940

Spot: 1.6945 3 mths: 1.6775 6 mths: 1.6698 9 mths: 1.6618

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	80.30	-1.15	82.85	79.80	1,938	3,757
Jan	80.85	-1.55	82.60	80.50	294	2,472
Feb	81.45	-1.55	83.10	81.10	174	1,730
Mar	81.85	-1.55	83.60	81.50	4,448	31,741
Apr	82.35	-1.55	-	-	77	1,433
May	82.75	-1.35	84.30	82.10	454	4,677
Total					7,767	63,871

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	292.40-292.80		
Opening	290.00-290.50		
Morning fix	291.10	173.191	416.331
Afternoon fix	293.00	174.022	418.111
Day's High	293.20-293.70		
Day's Low	289.90-290.40		
Previous close	294.40-294.90		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....3.76 6 months 3.93
2 months ....3.76 12 months 3.97
3 months 3.78

Silver Fix	p/troy oz.	US cts equiv.
Spot	316.20	531.50
3 months	319.55	534.85
6 months	322.30	537.15
1 year	328.48	542.90

Gold Coins	$ price	£ equiv.
Krugerrand	290.5-292.5	172.5-173.5
Maple Leaf	-	-
New Sovereign	70-73	41.5-43.5

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	292.6	-1.8	294.0	291.2	1,451	3,107
Jan	293.4	-1.6	-	-	-	5
Feb	294.5	-1.4	296.3	292.4	20,555	107.4k
Apr	296.3	-1.4	297.8	295.0	320	11,470
Jun	298.4	-1.3	299.5	297.7	486	12,837
Aug	300.5	-1.3	300.9	299.5	-	4,897
Total					23,988	194,549

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	385.7	-2.8	389.0	385.5	1,333	10,399
Apr	382.2	-2.8	385.0	382.0	62	2,356
Jul	379.2	-2.8	-	-	4	104
Total					1,395	12,859

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	210.20	-1.30	211.00	210.00	328	427
Mar	207.45	-1.05	208.50	207.00	619	3,733
Jun	203.95	-1.05	-	-	11	126
Sep	200.95	-1.05	-	-	-	4
Total					958	4,290

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	525.4	-2.3	530.0	521.5	375	1,613
Jan	527.7	-2.3	526.0	525.5	1	36
Mar	532.2	-2.5	540.0	525.0	8,772	65,477
May	535.3	-2.7	540.0	529.0	116	5,793
Jul	537.3	-2.9	545.0	535.0	485	5,262
Sep	539.0	-3.1	-	-	15	780
Total					9,962	89,243

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.85	+0.09	18.89	18.47	35,526	108.7k
Feb	19.08	+0.05	19.12	18.75	19,346	61,581
Mar	19.22	+0.03	19.25	18.94	8,573	34,819
Apr	19.32	+0.01	19.34	19.10	8,377	21,561
May	19.42	+0.02	19.42	19.20	2,085	19,653
Jun	19.47	+0.03	19.48	19.30	3,825	32,221
Total					84,875	421,315

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.14	-0.05	18.19	17.87	18,377	55,209
Feb	18.18	-	18.24	17.95	12,334	64,756
Mar	18.18	+0.03	18.25	17.98	5,225	18,398
Apr	18.21	+0.04	18.24	18.03	2,519	12,295
May	18.18	+0.02	18.20	18.04	1,479	8,559
Jun	18.18	+0.03	18.21	18.06	1,689	13,502
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	53.75	+0.50	53.85	52.50	12,284	54,330
Feb	54.30	+0.43	54.30	53.25	5,471	26,187
Mar	54.30	+0.33	54.35	53.45	2,804	14,324
Apr	53.60	+0.23	53.60	53.05	999	7,799
May	52.90	+0.18	53.10	52.45	347	6,124
Jun	52.80	+0.75	52.80	52.30	1,691	5,753
Total					25,519	131,922

■ GAS OIL IPE ($/tonne)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	164.75	-0.75	165.75	163.00	5,335	15,607
Jan	166.25	-	166.50	164.00	6,908	25,045
Feb	166.00	-0.25	166.50	164.00	2,291	15,748
Mar	165.50	-0.25	166.00	164.00	1,619	11,123
Apr	164.75	-0.25	165.25	163.50	601	4,688
May	164.25	-0.25	164.50	163.00	280	2,686
Total					17,554	98,244

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.050	+0.100	18.100	18.000	250	2,810
Total					308	12,215

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	2.605	-0.113	2.725	2.595	21,107	48,549
Feb	2.515	-0.095	2.630	2.500	6,188	27,715
Mar	2.365	-0.055	2.440	2.370	2,783	20,531
Apr	2.240	-0.035	2.270	2.240	844	11,926
May	2.210	-0.025	2.230	2.210	789	9,118
Jun	2.220	-0.015	2.230	2.220	697	8,482
Total					35,329	208,866

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	56.75	+0.32	56.80	55.60	10,747	34,208
Feb	57.10	+0.26	57.10	56.15	5,180	18,376
Mar	57.55	+0.20	57.55	56.70	1,971	10,731
Apr	60.00	-	60.00	59.65	1,008	8,438
May	59.90	+0.04	59.90	59.90	1,539	7,703
Total					21,854	92,341

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	81.40	+0.40	81.50	81.20	46	1,539
Mar	83.50	+0.50	83.55	83.10	85	2,858
May	85.50	+0.50	85.50	85.20	291	2,984
Jul	87.50	+0.50	87.75	87.25	40	393
Sep	82.75	-	-	-	-	20
Total					522	8,226

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	338.75	-2.5	343.00	338.00	4,100	3,106
Mar	355.50	-1.25	361.00	354.50	14,239	53,479
May	363.50	-1.5	367.25	363.00	1,788	10,974
Jul	368.25	-0.75	371.00	367.00	1,779	17,235
Sep	373.00	+1	377.00	377.00	43	388
Dec	382.50	-	386.00	382.50	141	3,380
Total					22,947	88,617

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	271.25	-0.25	272.25	270.50	17,508	36,077
Mar	280.75	-	282.25	280.25	34,249	180,026
May	287.25	-	288.50	286.75	2,189	42,177
Jul	291.25	+0.25	292.25	290.50	4,344	62,864
Sep	287.00	-	287.25	285.25	201	5,223
Dec	287.25	+0.25	287.50	286.00	1,629	31,327
Total					60,327	349,365

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	74.75	+0.10	74.75	74.75	18	492
Mar	77.35	+0.10	77.25	77.10	24	1,355
May	78.60	+0.10	-	-	-	20
Sep	80.00	-0.50	80.00	80.00	-	6
Nov	82.00	-0.50	82.00	82.00	-	60
Total					25	1,933

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	708.50	+2.5	707.00	699.00	42,693	67,143
Mar	710.75	+2	711.50	703.50	7,469	27,969
May	715.00	+1.75	718.00	708.50	2,000	20,901
Jul	717.50	+1.5	718.25	711.00	2,685	22,552
Aug	711.50	+0.5	712.00	706.50	41	1,738
Sep	690.00	-0.5	688.50	687.00	2	59
Total					55,872	148,897

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	24.97	-0.2	25.17	24.91	7,227	5,124
Jan	25.30	-0.13	25.40	25.18	15,386	47,422
Mar	25.63	-0.1	25.70	25.51	3,877	33,694
May	25.80	-0.08	25.75	25.62	484	13,055
Jul	25.90	-0.02	25.90	25.72	1,285	11,390
Aug	25.79	-0.04	25.75	25.70	135	2,087
Total					28,367	114,729

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	230.9	+0.3	231.5	228.5	8,765	13,241
Jan	222.4	-0.1	223.5	220.0	11,449	31,011
Mar	216.8	-0.5	218.4	215.0	8,501	34,847
May	214.2	-0.3	215.8	212.3	2,724	20,515
Jul	214.4	+0.1	215.7	212.7	1,347	14,538
Aug	214.5	+1	215.0	213.0	69	3,285
Total					32,865	124,097

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	94.5	-0.5	-	-	-	-
Apr	111.5	-0.5	113.0	110.0	114	1,053
May	121.5	-0.5	-	-	-	22
Jun	131.5	-0.5	-	-	-	-
Nov	60.6	-	-	-	-	-
Total					121	1,103

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1225	+10	1225	1215	31	295
Jan	1239	+9	1239	1228	11	702
Feb	1245	-5	1235	1235	30	-
Apr	1330	+5	1330	1330	30	400
Jul	1200	-	-	-	-	124
Total					77	1,581

	Close	Prev
BFI	1184	1180

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	510.00	+0.75	510.00	503.00	61	158
Mar	537.75	+2.50	537.75	532.00	22	426
Total					163	761

FUTURES DATA

All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened: new crop at 4,250 CFR, crop 1996 at 4,150 FCA. Walnuts US jumbo inshell: 1,800 CPT Europe. Turkish hazelnuts 13/15 + 11/13, new crop indication 4,600 CFR. Iranian sultanas double cleaned crop 1997, 1,110 CFR. Iranian apricot halves 1,790 CFR. Indian cashews: crop 1997 and 98 CFR W320 5,350; W240 5,800. US almonds: crop 1997, St.5% at 3,600 FAS for Dec-Jan shipment; processed blanched goods from 5,000. Coconut: 1,120 FOB from top Philippine mills. Russian Snow White pumpkin seed: crop 97 long, 1,980 CFR MEP.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	994	+4	998	994	164	2,025
Mar	1024	+4	1029	1023	1,907	69,496
May	1044	+5	1049	1043	383	24,854
Jul	1061	+4	1066	1062	323	11,389
Sep	1078	+4	1080	1078	61	19,059
Dec	1096	+5	1098	1096	107	23,196
Total					3,380	179,710

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1558	+10	1570	1550	61	333
Mar	1588	+10	1593	1578	2,976	49,180
May	1617	+11	1621	1611	227	18,768
Jul	1637	+11	1640	1633	38	4,891
Sep	1658	+14	1658	1657	15	5,742
Dec	1676	+12	1677	1676	13	9,130
Total					3,330	99,123

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Dec 2 Daily	1224.72	1220.90

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1818	+33	1838	1773	2,418	16,925
Mar	1807	+32	1820	1765	5,746	18,155
May	1785	+30	1799	1745	1,278	5,495
Jul	1770	+25	1780	1740	86	1,135
Sep	1770	+25	-	-	-	482
Nov	1775	+25	-	-	-	30
Total					9,559	42,212

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	174.00	-1.50	176.50	172.80	309	1,040
Mar	167.30	-1.20	169.00	165.10	10,380	14,748
May	160.25	-1.90	161.50	159.00	1,317	5,159
Jul	152.80	-2.85	154.25	151.50	342	2,433
Sep	146.55	-1.70	148.00	146.00	177	1,191
Dec	141.75	-0.50	142.00	141.00	63	948
Total					12,594	25,658

■ COFFEE (ICO) (US cents/pound)

Dec 2	Price	Prev. day
Comp. daily	130.68	128.72
15 day average	121.32	120.23

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	310.2	-0.9	311.0	309.8	1,301	22,576
May	315.6	-0.5	316.1	315.0	506	5,299
Aug	317.4	-1.1	318.0	317.0	95	4,638
Oct	311.9	-0.6	311.6	311.6	18	3,687
Dec	311.1	-0.4	316.0	316.0	-	142
Total					1,918	35,487

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	12.38	-0.07	12.45	12.36	10,179	110.9k
May	12.30	-0.06	12.36	12.27	1,326	31,934
Jul	11.97	-0.07	12.07	11.96	1,891	26,578
Oct	11.75	-0.04	11.81	11.74	2,444	23,513
Mar	11.58	-	11.60	11.56	186	6,156
May	11.52	-0.01	11.55	11.50	42	914
Total					16,183	200,864

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	67.97	-0.23	69.50	67.73	153	348
Mar	69.63	-0.16	69.94	69.50	9,078	43,788
May	70.96	-0.16	71.28	70.85	2,857	13,889
Jul	72.15	-0.05	72.40	72.05	2,672	14,579
Oct	73.63	-0.07	73.95	73.50	240	1,063
Dec	74.20	+0.18	74.30	74.00	1,369	10,740
Total					16,663	84,866

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	81.40	-0.95	81.50	79.95	1,492	22,054
Mar	84.45	-1.05	84.60	83.25	939	14,941
May	87.45	-1.05	86.95	86.55	109	3,468
Jul	90.15	-1.25	89.00	89.00	72	1,878
Sep	92.85	-1.30	92.10	92.10	23	938
Nov	95.55	-0.60	96.00	95.00	112	1,187
Total					2,777	44,869

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 2	Dec 1	month ago	year ago
1795.6	1793.9	1828.7	1863.2

■ CRB Futures (Base: 1967 = 100)

Dec 1	Nov 28	month ago	year ago
236.89	236.96	-	-

■ GSCI Spot (Base: 1970 = 100)

Dec 1	Nov 28	month ago	year ago
188.94	189.38	205.83	218.87

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,050	to	663,375
Aluminium alloy	-80	to	43,260
Copper	+650	to	341,550
Lead	-	to	116,450
Nickel	-60	to	66,246
Zinc	-1,350	to	496,300
Tin	+40	to	8,320

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	66.825	-0.325	67.500	66.775	4,688	16,794
Feb	67.300	-0.500	68.150	67.250	79,289	46,236
Apr	70.950	-0.475	71.575	70.900	2,599	20,878
Jun	69.550	-0.325	70.000	69.525	8,399	12,899
Aug	70.125	-0.225	70.250	70.050	595	4,991
Oct	72.350	-0.275	72.850	72.300	568	1,301
Total					16,742	103,209

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	62.450	+0.375	62.500	61.900	2,505	8,915
Feb	60.100	+0.175	60.325	59.900	2,955	18,316
Apr	57.225	+0.150	57.425	57.025	1,975	7,335
Jun	65.300	-0.075	65.550	65.200	754	3,990
Jul	64.200	+0.050	64.300	64.125	144	1,304
Aug	62.100	+0.225	62.100	61.750	6	217
Total					8,438	40,701

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	58.175	+0.375	58.450	57.250	1,169	6,631
Mar	57.050	+0.900	57.350	56.200	230	1,095
May	58.125	+1.275	58.125	56.750	362	657
Jul	55.500	+0.200	56.800	56.050	11	394
Aug	53.250	+0.025	53.250	53.225	6	58
Total					1,778	8,659

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1500	90	116	3	19
1600	23	56	35	57
1700	2	21	114	121

■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1700	133	172	13	31
1800	64	109	44	66
1900	24	63	103	118

■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1700	128	165	10	58
1750	89	133	21	76
1800	58	106	40	99

■ COCOA LIFFE	Mar	May	Mar	May
975	69	98	20	29
1000	53	82	29	38
1025	41	68	42	49

■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1850	18	39	71	85
1900	6	-	109	109
1950	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.26-7.36	-0.02
Brent Blend (dated)	$17.82-7.85	-0.045
Brent Blend (Jan)	$18.17-8.20	+0.005
W.T.I.	$18.86-8.88w	+0.11

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$187-189	
Gas Oil	$168-171	-1
Heavy Fuel Oil	$90-92	-4
Naphtha	$179-180	-1
Jet fuel	$189-190	-0.5
Diesel	$180-182	

■ NATURAL GAS (Pence/therm)

Bacton (Jan)	18.00-18.10	+0.1

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

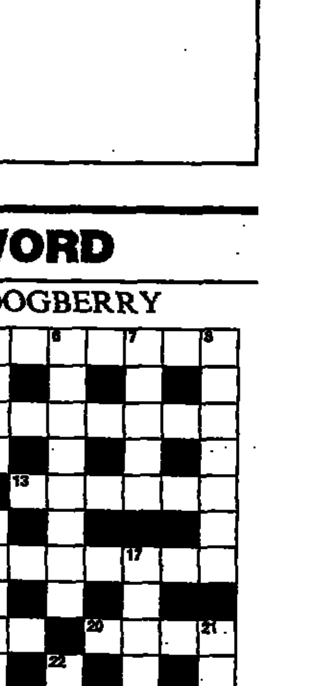
Gold (per troy oz)♣	$292.85	-2.00
Silver (per troy oz)♣	534.00c	
Platinum (per troy oz.)	$387.50	-0.50
Palladium (per troy oz.)	$208.00	-1.25
Copper	89.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.57r	
Tin (New York)	268.5	-3.00
Cattle (live weight)	89.88p	-0.20*
Sheep (live weight)	91.54p	-7.91*
Pigs (live weight)†	60.07p	-4.91*
Lon. day sugar (raw)	$296.70	-0.90
Lon. day sugar (wte)	$301.60	-1.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	54.50p	
Rubber (Jan)♥	54.50p	
Rubber (KL RSS No1)	274.0z	-1.5
Coconut Oil (Phil)§	587.5y	-7.5
Palm Oil (Malay.)§	520.0w	
Copra (Phil)§	$407.5	
Soyabeans (US)	186.0	
Cotton Outlook'A' index	76.00c	-0.90
Wooltops (64s Super)	396p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Dec/Jan. z Nov/Dec. w Jan. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,569 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,549 Set by DOGBERRY



ACROSS

1 One dormant fish? (6)
4 Doctor 9 being treated as source of loan (8)
9 Stimulating man to devour books (6)
10 Pine, missing Prodigal Son, for instance (4-4)
12 Partner held in popular esteem gets burned (8)
13 Old friends embracing science and bad art (6)
15 Beyond most of 19, say (4)
16 Company gaining the front perhaps suffer from it (10)
19 Food for rodents interrupting sick clergyman's comeback (10)
20 Former ruler of note (4)
23 Sign of a tennis shot getting my first service returned (6)
25 Summarily incarcerate alien communication system (6)
27 Insolvent, lousy, punk brat .... (8)
28 .... to join Rugby Union organisation, though under age (6)
29 Approximate price of property compiler's entered (8)
30 Get 15 to 10 on a brown horse, "Tapestry" (6)

DOWN

1 Bone can keep breaking (4-3)
2 Academic papers with input of gold (9)
3 Biblical warrior and priest before the Lord (6)
5 Double scripture results in a major disturbance (4)
6 Closely follow fruit of high-tension, high-level combat (8
7 Equipment for turning round in niche (5)
8 Upset the cart wheel (7)
11 Many say upstanding visionary has qualifications (7)
14 Vague idea of product of squid and fish (7)
17 Vulgar onslaught (9)
18 Girl about to record artist's weight (8)
19 That may appear repulsive – eating starters of snails in batter (7)
21 Carbuncle on an insect's middle with nothing missing (7)
22 Plotting the end of Alexandre Dumas' jellyfish (6)
24 Artist's model with hair on top (5)
26 Skewer in gob (4)

Solution 9,548

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

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BAII Asset Management Ltd
10 Piccadilly, London W1V 0EE 0171 734 3769

Bank Von Ernst & Cie AG
Marktgasse 63/65, 3001 Berne, Switzerland 0041 313226111

Banque Indosuez
39 Allee Scheffer, L-2520 Luxembourg 00352 47871

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)
26 Place de la Gare, L-1616 00 352 404344

Frontrunner I (u)

GT Global

HSBC Investment Funds Luxembourg SA (u)

Morgan Stanley Sicav - Contd.

Nikko Global Umbrella Fund

Nomura Global Fund (u)

PRICOA Worldwide Inv Portfolio Sicav

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Tweedy, Browne Value Funds

Generali International Limited

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

OFFSHORE INSURANCES

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or −	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	♣♠	[illegible]	−4½	585	407½	5,611	4.5	13.8
Bulmer (HP)	♣	415	—	626	385	219.1	4.4	11.6
Burn St Dist	♣	49½	—	78½	40½	20.8	8.8	15.9
Glenmorangie A	†	950	—	1040	840	129.2	1.8	22.6
B	†	985	−5	1140	950	38.6	0.9	46.1
Grand Met	♣♠	585	−7	638	425½	11,336	3.5	17.2
Guinness	♣♠	598½	−6	639½	474	10,172	3.6	14.8
Highland	♣	307½	+1	308	280	410.2	3.6	14.2
5¾pc Cnv Bds		97¾		99½	85½	46.0	6.3	–
Kirin Y	$	482½	−3½	654¼	435¾	4,761	1.2	–
Matthew Clark	♣	237½	−3	398	213	204.9	13.0	6.9
Merrydown	♣	74½	+3	112½	40½	8.12	5.2	–
Seagram C$		£19½	−⅜	£25½	£18½	9,222	1.4	–

BANKS, RETAIL

	Notes	Price	+ or −	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		[illegible]	+½	[illegible]	[illegible]	[illegible]	2.8	17.3
ANZ A$		431½	+14	518¾	357¾	[illegible]	4.7	6
Abbey National	†	971	−10	1050	[illegible]	13,739	3.5	15.9
Alliance & Leicester	♣†	733	−4½	770	332½	4,398	2.8	17.2
Allied Irish IE	♣†	547½	+10½	563	388½	4,651	3.3	15.5
Anglo Irish IE	†	[illegible]	−1½	104½	70	325.9	4.1	14.1
Asahi Y		[illegible]	−13½	572	181	6,172	1.2	–
Banco Bil Viz Pta	$	[illegible]	+½	[illegible]	[illegible]	11,254	1.5	–
Banco Sant Pta		[illegible]	+⅝	[illegible]	[illegible]	[illegible]	2.4	17.9
Bk Ireland IE	♣†	817½	+7	817½	517½	[illegible]	2.6	17.9
Bank Scotland	♣†	582	−6	600	280½	[illegible]	2.1	14.7
9¼pc Pf		139	+¼	142¼	116¾	278.8	8.3	–
9¾pc Pf		148½	+½	148¾	122½	148.5	8.3	–

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

MEDIA - Cont.

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

TRANSPORT

AIM - Cont.

SUPPORT SERVICES

OIL EXPLORATION & PRODUCTION

INVESTMENT COMPANIES

WATER

AMERICANS

OIL, INTEGRATED

AIM

OTHER FINANCIAL

CANADIANS

LEISURE & HOTELS

SOUTH AFRICANS

TRADED INDEX SECURITIES

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

LIFE ASSURANCE

TELECOMMUNICATIONS

RETAILERS, GENERAL

TEXTILES & APPAREL

MEDIA

PHARMACEUTICALS

PROPERTY

TOBACCO

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- Highs and lows marked thus have been adjusted to allow for capital changes

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie runs out of steam after initial spurt

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

The FTSE 100 index made another dash towards 5,000 early yesterday, got to within 12 points and then ran out of puff to finish modestly lower on the day.

The undertone remained firm, however, with dealers claiming that the continuing spate of takeover bids, mostly in the smaller companies arena, may well move up a gear to encompass the FTSE 100 and FTSE 250 areas. "If what everyone expects actually happens then there is absolutely no question we'll be through 5,000 and possibly even challenge the all-time high of 5,367.3," said the head dealer at one big European house.

Turnover in the equity market was never more than run of the mill, with many of the big institutions preferring to hold off until the outcome of the latest meeting of the monetary policy committee is made known at noon today. Few observers expect an increase in UK interest rates until after Christmas.

There is also some concern in dealing rooms that the US non-farm payroll report for November might presage a rise in US interest rates after the next meeting of the Federal Reserve's open market committee, scheduled for December 16.

The FTSE 100 index finished the session 6.9 off at 4,970.7. At its best, shortly after the start of trading, the index was more than 10 points higher.

The FTSE 250 – which has tended to lag the senior index during the recent rally which has seen the 100 index gain 145 points – staged a catch up, outperforming strongly to close 24.0 higher at 4,692.4.

Helping drive the second liners ahead was the usual burst of takeover speculation, this time in BICC, the electrical group, and Greenalls, the pubs and hotels company. In addition many of the leading information technology companies rose strongly as the market picked up news that a new sector, Information Technology, is being constructed for the FTSE Actuaries. The FTSE SmallCap rose 3.9 to 2,278.9.

Traders insisted that more bids were in the pipeline. "The merger and acquisition story is rumbling on and the story is that the City's corporate finance departments are currently working 24 hours a day on potential bids," said one salesman.

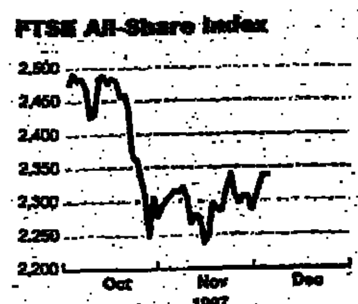
Wall Street's sedate overnight performance and the negative showing by Tokyo and Hong Kong played only a small part in the day's events.

But Wall Street's poor opening yesterday, which saw the Dow Jones Industrial Average slide more than 50 points not long after trading commenced in the US, kept the lid on performance in UK stocks.

Dealers continued to complain about extreme volatility in the UK equity market. But the technical team at Robert Fleming Securities pointed out that there were more frequent changes of 4 per cent or greater in a week between 1990 and 1992 than there are now. Flemings said UK equities have been through a period of relatively low volatility, especially in 1995 and 1996.

Turnover at 6pm was 732.5m.

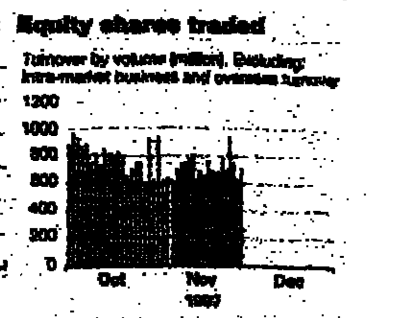
FTSE All-Share Index



Source: Datastream

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4970.7	-6.9	FT 30	3205.6	+1.4
FTSE 250	4692.4	+24.0	FTSE Non-Fins p/e	19.71	19.73
FTSE 350	2396.3	-0.3	FTSE 100 Fut Dec	4980.0	-30.0
FTSE All-Share	2341.65	-0.03	10 yr Gilt yield	6.55	6.56
FTSE All-Share yield	3.33	3.33	Long gilt/equity yld ratio	1.97	1.95

Best performing sectors

1 Support Services ....+1.7
2 Life Assurance ....+1.4
3 Retailers: Food ....+1.4
4 Insurance ....+1.3
5 Paper: Pckg ....+1.0

Worst performing sectors

1 Retailers: General ....-1.5
2 Household Goods ....-1.2
3 Alcoholic Beverages ....-1.1
4 Gas Distribution ....-0.8
5 Telecommunications ....-0.7

Takeover stories dominate

By Peter John, Joel Kibazo and Martin Brice

Two new bids among second-line companies yesterday reinforced the hunger for consolidation in the UK.

The market is gearing itself up for a glut of takeovers and mergers. About £8.5bn is already looking for a new home and the bids currently pouring in from cash-rich companies could be just the tip of the iceberg.

BZW, which has been tracking institutional liquidity very closely, says pension funds now have more cash than at any time since 1990. The current rash of overseas cash bids will only increase those cash holdings.

The feeding frenzy began with Lafarge's proposed £1.8bn acquisition of Redland in October.

Every sector of the market is being closely examined for potential targets. But the main focus of the enthusiasm is the financial sectors – banks and insurers. There has been one full-scale bid in the area: a £3.1bn offer for Mercury Asset Management from Merrill Lynch; disposals from National Westminster and Barclays; and a potential break-up of Hambros, which lifted 4 to 271p.

National Westminster, Prudential, Guardian Royal Exchange, Perpetual and Independent Insurance are only a few of the large and medium-sized companies with a price tag on their heads. NatWest lifted 5 to 903p, the Pru 26½ to 680p, Guardian 4 to 311p, Perpetual 50 to £24.70 and Independent 7½ to £11.12½.

Meanwhile, overseas companies have targeted industrials whose valuations have been crucified by currency shifts. In chemicals, a £1.07bn bid for Allied Colloids and a prospective offer for Holliday – estimated at £260m – have highlighted the potential in Courtaulds, Croda International, Brent and Yorkshire. Holliday rose 41½ to 236½p, Courtaulds 13 to 295p, Croda 16½ to 385p and Brent 6 to 105½p, while Yorkshire eased a penny to 212½p.

In print and broadcast, United News & Media is expected to raise £400m through the sale of its regional newspapers. Scottish Radio, Johnstone Press and Newsquest are all believed to be checking their bank accounts.

Yesterday, printer Watmoughs attracted a £188m hostile bid from Quebecor of Canada and the shares rose 90 to 287½p. The second bid of the day was a £48m offer for Morris Ashby, the engineering group, which lifted 7½ to 397½p.

Reuters Holdings was a strong performer in late trading on speculation that the company is poised to announce a big deal today.

Initially there was a feeling that the news and electronic information company might be on the acquisition trail. Dow Jones Markets has been cited as a possibility and is thought to be up for sale. However, analysts were sceptical, arguing that it offered little value.

They also pointed out that Reuters is concentrating on organic rather than acquisition-led growth.

The second possibility could be a large investment in the internet. Reuters has recently announced a £50m development fund for internet-related products. However, that is small beer compared with Reuters £1bn war chest.

Earlier this year the company was prevented from returning a large proportion of the cash pile to shareholders because of tax changes.

Finally there is the possibility that Reuters will hive off Instinet, its automated share trading business in the US. The shares closed 17½ up at 679½p.

P&O edged higher in early trading but started to suffer as a story went the rounds that the forthcoming flotation of Bovis would value the housebuilding subsidiary at about £225m rather than the £250m-£300m originally hoped for. P&O closed unchanged at 660p.

A valuation on Bovis of £225m would put it on a price/earnings of less than 9 times, which David Taylor at Teather & Greenwood described as "cheap against the rest of the sector".

Some housebuilding stocks have underperformed in the run-up to the Bovis float, although yesterday Wilson Bowden, recently the subject of a bullish note from Soc-Gen, was up 2 at 524½p. Howard Proctor at the broker told clients: "A tour of Midlands housing sites confirmed that 1997 will be a terrific year not just for Wilson Bowden but for the whole of the UK housing market."

Analysts dismissed talk that Bass was considering a bid for Greenalls Group. They instead attributed the rise in Greenalls, which gained 18½ to 406p, to a recovery.

The creation by FTSE International of a separate sub-sector of the support services category for information technology companies prompted sharp rises amid a scramble for the stocks, which figured prominently in the list of leading risers in the FTSE 250.

Paul Morland at NatWest Markets said: "It is likely that technology funds were buying weightings in an index that they may be measured against. The sector will not be created until the end of next year so index funds are unlikely to buy before that date."

Foremost among the beneficiaries was Sage Group, which gained 43 to 807½p, while Sema Group rose 70½ to £14.07½p. Misys advanced 40 to £17.00 and CMG gained 47½ to £14.00.

Pittards, the leather goods maker, shed 16 to 53½p after it warned about profits, citing the strength of the pound and weaker demand.

VCI, the audio-visual publisher, mentioned the same reasons and suffered the market's biggest fall as it tumbled 77 to 115½p.

The general nervousness among retailing issues settled on Great Universal Stores. Investors suffered a bout of jitters ahead of the company's first-half figures published today which left the shares trailing 30 or 4.2 per cent to 685p, the worst performer in the FTSE 100 index. Turnover was 3.9m.

Analysts said they expected earnings to be held back by sluggish mail order business, and the recent strength of sterling. Profits are expected to be in the region of £233m to £235m, roughly unchanged from last year's £235.6m, which was the group's first profits fall in 48 years.

Among property stocks, MEPC improved 9 to 548p after it reported a healthy set of full-year figures. The net asset value rose 10.4 per cent to 497p.

National Westminster hardened 5 to 903p, with BZW rumoured to have upgraded its recommendation on the stock from "hold" to "buy".

Gibbon improved 10 to 153½p after the speciality chemicals company almost doubled profits at £1.3m.

FT 30 INDEX

	Dec 3	Dec 2	Dec 1	Nov 28	Nov 27	Yr ago	*High	*Low
FT 30	3206.6	3205.2	3182.2	3135.6	3160.7	2799.1	3430.3	2668.8
Ord. div. yield	3.55	3.55	3.57	3.62	3.58	4.05	4.22	3.28
P/E ratio net	20.72	20.73	20.58	20.29	20.56	17.02	22.33	15.8
P/E ratio nil	20.43	20.45	20.30	20.01	20.28	16.86	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 18/02/00. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3206.4	3206.5	3195.4	3201.2	3204.6	3200.7	3208.6	3206.0	3206.5	3212.3	3193.5

	Dec 3	Dec 2	Dec 1	Nov 28	Nov 27	Yr ago
SEAQ bargains	44,637	46,525	46,525	39,824	39,740	34,438
Equity turnover (£m)†	-	2597.9	2503.1	2137.8	2720.8	873.1
Equity bargains†	-	41,328	39,519	35,883	34,442	19,674
Shares traded (ml)†	-	732.5	709.0	622.3	743.3	396.5

†Excluding intra-market and overseas turnover but including Crest turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	653	Total Highs	54	Total contracts	28,184
Total Falls	722	Total Lows	99	Calls	17,408
Same	1,671			Puts	10,776

Dec 3 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int
Dec	5008.0	4991.0	-19.0	5029.0	4970.0	8423	59753
Mar	5067.0	5037.0	-19.0	5068.0	5018.0	516	9009

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int
Dec		4895.0	+15.0			0	6258
Mar		4770.0	+15.0			0	226

■ FTSE 100 INDEX OPTION (LIFFE) (*4970) £10 per full index point

	4800 C	4800 P	4850 C	4850 P	4900 C	4900 P	4950 C	4950 P	5000 C	5000 P	5050 C	5050 P	5100 C	5100 P	5150 C	5150 P
Dec	235	38	198½	50½	157½	66½	123	82½	91½	102½	65	127	42	158	30½	198
Jan	295½	69½	258½	101	222½	115½	181½	135½	159	156½	130	180	106	208½	82	239
Feb	358	127½	323	142	291½	161	260	180	228½	199½	193	221	169½	249½	146½	277
Mar	392½	160	360½	177½	328½	195½	298½	214	264½	232½	232½	253½	208	280	184	307
Jun†	496½	215½			434	250½			371	288			314½	334		

Calls 595 Puts 489

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4825 C	4825 P	4875 C	4875 P	4925 C	4925 P	4975 C	4975 P	5025 C	5025 P	5075 C	5075 P	5125 C	5125 P	5175 C	5175 P
Dec	219	44½	170½	55	135	69½	104	88	75½	109½	54	138	37	170½	24½	208
Jan	272	90	237	104	203½	120	170½	137	141½	157½	115	180½	81	206	70	234½
Feb	337	129½	302½	144	269½	160½	238½	178½	209½	199	183	221	158	245½	135½	272½
Mar	371	161½			305½	193½			246½	233			194	279½		
Jun†	478	219½			414½	252½			357	290½			301	331		

Calls 12,777 Puts 7,468 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Gross yld	P/E net
§-	F.P.	50.3	100½	99½	Advance UK Tst	100½		-	-	-	-
-	F.P.	31.6	207½	198	BCH Group	199½		RW6.2	1.7	3.9	18.8
-	F.P.	1,354	30½	29½	BG 'B'	30½		-	-	-	-
§90	F.P.	14.4	112½	102½	†CRC	112½		W-	-	-	20.2
§	F.P.	6.92	114	113½	Capital Opps Tst	113½		-	-	-	-
§150	F.P.	6.47	153½	153½	†Cresco Intl	153½		-	-	-	-
-	F.P.	-	£75½	£72½	Fmg Grd Units	£72½		-	-	-	-
*	F.P.	21.6	100	100	Foresight Tech	100		-	-	-	-
*	F.P.	1.20	35	5½	Do Warrants	30		-	-	-	-
*	F.P.	73.5	99½	70½	†Metalrussia	73½		-	-	-	-
§45	F.P.	22.8	57½	50½	†Minorplanet Sys	57½		-	-	-	-
-	F.P.	19.7	126	115½	Nthn Recruitment	120½	-1	L1.73	4.1	1.8	15.2
70	F.P.	24.5	63½	53	Nott'ham Forest	54		-	-	-	-
-	F.P.	7.61	60	6	†Range Cooker Co	6¼		-	-	-	11.8
§95	F.P.	5.58	114½	104½	†Savoy Asset Mngt	113½		W4.06	2.0	4.5	14.0
§250	F.P.	16.0	255	255	Seascope Ship	255		W12.5	2.4	6.1	8.6
§160	F.P.	44.0	175½	160	Tetra	175		L0.8	6.9	0.6	29.3
-	F.P.	56.5	210½	187½	Workplace Tech	185	+1½	RW1.5	5.2	1.0	24.8

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Dec 2	% chg on day	Dec 1	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	972.68	+0.1	972.14	1838.15	2.89	-	1897.49	972.14
■ Regional indices								
Africa (15)	979.43	+0.0	979.29	2198.02	7.27	17.38	2333.56	979.29
Australasia (6)	972.83	-1.0	982.44	2176.45	3.88	12.25	2217.80	951.48
North America (12)	982.26	+0.2	980.13	1893.16	1.31	36.52	1783.48	980.10

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 3	Day's chge%	Dec 2	Dec 1	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4970.7	-0.1	4977.6	4921.8	4045.2	3.28	2.69	2.06	18.48	139.63	2143.52
FTSE 250	4692.4	+0.5	4668.4	4657.6	4421.9	3.58	2.94	1.77	19.71	139.00	1982.40
FTSE 250 ex IT	4730.4	+0.6	4703.6	4694.7	4459.2	3.68	3.04	1.81	18.71	144.19	2005.21
FTSE 350	2396.3	...	2396.6	2373.8	2008.5	3.34	2.74	2.00	18.69	68.04	2111.12
FTSE 350 ex IT	2399.6	...	2400.0	2377.0	-	3.36	2.76	2.01	18.48	36.10	1084.29
FTSE 350 Higher Yield	2382.1	+0.2	2378.0	2360.0	1916.3	4.32	3.57	1.83	15.84	84.04	1785.20
FTSE 350 Lower Yield	2422.6	-0.2	2426.7	2399.7	2108.1	2.50	2.02	2.26	22.08	52.54	1740.90
FTSE SmallCap	2278.94	+0.2	2275.01	2273.13	2162.77	3.25	2.62	1.63	23.65	61.67	1955.93
FTSE SmallCap ex IT	2284.35	+0.2	2279.20	2279.49	2181.89	3.48	2.80	1.69	21.24	66.36	1979.13
FTSE All-Share	2341.65	...	2341.68	2320.76	1980.09	3.33	2.73	1.98	18.95	66.27	2093.74
FTSE All-Share ex IT	2346.88	...	2346.94	2325.74	-	3.36	2.76	2.00	18.62	35.52	1079.48

■ FTSE Actuaries Industry Sectors

	Dec 3	Day's chge%	Dec 2	Dec 1	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4435.80	+0.2	4428.35	4387.00	3875.84	3.53	2.80	1.81	19.59	140.69	2008.16
12 Extractive Industries(5)	2942.83	+0.9	2916.01	2814.88	4195.82	4.76	3.39	1.88	13.86	139.64	907.05
15 Oil, Integrated(3)	4884.68	+0.1	4879.47	4822.81	4004.78	3.56	2.88	1.77	19.81	154.87	2275.84
18 Oil Exploration & Prod(12)	3563.22	-0.2	3568.84	3572.09	2882.20	1.61	1.33	2.32	33.58	52.82	2191.73
20 GEN INDUSTRIALS(257)	1995.00	+0.3	1988.29	1981.81	1984.94	3.93	3.33	1.94	16.38	67.67	1154.53
21 Building & Construction(35)	1315.84	-0.2	1317.89	1321.26	1155.67	3.49	2.81	2.31	15.52	40.86	1157.68
22 Building Matls & Merchs(30)	1784.67	-0.6	1794.91	1799.72	1805.06	4.44	3.64	1.84	15.28	65.53	955.57
23 Chemicals(26)	2458.52	+0.7	2442.51	2447.43	2356.21	4.05	3.52	1.71	18.07	91.89	1239.54
24 Diversified Industrials(13)	1339.18	+0.5	1332.07	1328.43	1370.97	5.09	4.79	2.63	9.35	66.24	810.18
25 Electronic & Elect Equip(34)	2173.68	+0.1	2171.48	2157.82	2238.77	4.06	3.28	1.55	19.87	55.90	1185.61
26 Engineering(65)	2722.51	+0.6	2707.33	2684.78	2572.02	3.10	2.60	2.42	16.66	72.59	1731.16
27 Engineering, Vehicles(13)	3389.35	+0.7	3366.04	3338.01	3176.12	2.91	2.45	‡	‡	91.65	1645.22
28 Paper, Pckg & Printing(27)	2155.35	+1.0	2134.81	2132.80	2496.82	4.82	3.96	1.99	13.04	84.16	953.44
29 Textiles & Apparel(14)	1023.37	+0.6	1017.80	1015.65	1067.08	6.59	5.47	1.16	16.09	62.17	688.79
30 CONSUMER GOODS(85)	4717.15	-0.4	4738.27	4712.18	3756.11	3.20	2.73	1.82	21.45	137.10	1841.06
32 Alcoholic Beverages(7)	3175.05	-1.1	3210.12	3224.78	2699.78	3.82	3.40	2.14	15.28	120.20	1222.94
33 Food Producers(25)	3274.41	...	3273.16	3220.05	2665.42	3.30	2.73	1.92	19.69	94.99	1565.05
34 Household Goods(17)	2945.86	-1.2	2980.94	2948.56	2589.32	3.39	2.96	2.49	14.83	89.62	1224.85
36 Health Care(14)	2194.28	+0.5	2183.02	2171.40	2013.30	2.34	1.95	1.81	29.46	52.46	1368.13
37 Pharmaceuticals(19)	7692.96	-0.6	7738.43	7698.32	5775.78	2.48	2.03	1.70	30.28	171.99	2724.93
38 Tobacco(3)	4561.06	+0.1	4557.54	4593.84	3917.83	6.22	5.49	1.60	12.53	240.05	1240.55
40 SERVICES(271)	2835.81	...	2835.27	2816.47	2808.69	2.91	2.35	2.04	21.11	69.55	1543.12
41 Distributors(26)	2543.99	+0.7	2525.08	2506.44	2908.96	3.73	3.04	2.03	16.49	82.58	995.87
42 Leisure & Hotels(30)	3282.28	-0.3	3293.80	3263.63	3239.80	2.90	2.32	2.18	19.75	86.30	1831.91
43 Media(41)	4174.42	...	4174.14	4150.46	4236.58	2.44	2.02	1.90	26.98	92.29	1582.99
44 Retailers, Food(15)	2693.11	+1.4	2656.10	2612.08	2061.02	3.13	2.50	2.28	17.54	72.23	1811.77
45 Retailers, General(53)	2335.16	-1.5	2370.96	2355.47	2117.36	3.11	2.49	2.18	18.49	64.97	1406.01
47 Breweries, Pubs & Rest.(22)	3429.60	+0.3	3417.70	3397.27	3251.89	3.44	2.76	2.30	15.78	68.88	1718.55
48 Support Services(53)	3380.96	+1.7	3325.29	3317.48	2735.40	1.81	1.48	2.40	28.73	42.13	2213.02
49 Transport(23)	2898.71	-0.2	2904.92	2903.45	2617.77	3.54	2.85	1.28	27.63	88.38	1277.96
60 UTILITIES(32)	3374.49	-0.2	3381.28	3375.81	2460.68	4.00	3.21	1.62	19.34	92.89	1579.28
62 Electricity(9)	3752.53	+0.6	3729.13	3726.63	2647.94	4.97	3.98	2.12	11.89	144.37	2151.66
64 Gas Distribution(2)	2488.25	-0.8	2507.64	2499.41	1442.15	2.61	2.09	‡	‡	81.42	1425.18
66 Telecommunications(9)	2610.17	-0.7	2627.90	2627.34	2058.86	3.38	2.73	1.47	25.19	48.30	1257.69
68 Water(12)	3208.59	+0.3	3199.02	3178.50	2283.00	5.32	4.26	2.21	10.61	103.31	1928.88
69 NON-FINANCIALS(665)	2368.97	-0.1	2370.18	2357.45	2056.83	3.40	2.80	1.87	19.71	67.57	1902.95
70 FINANCIALS(105)	4574.29	+0.1	4567.60	4475.28	3440.47	3.26	2.63	2.41	15.94	131.82	2084.27
71 Banks, Retail(11)	6724.91	-0.3	6742.53	6575.06	4959.80	3.13	2.50	2.53	15.77	186.05	2319.98
73 Insurance(17)	2027.51	+1.3	2001.81	1981.84	1602.48	4.37	3.60	2.78	10.30	84.84	1646.39
74 Life Assurance(6)	5543.01	+1.4	5466.45	5359.95	4010.90	3.30	2.71	2.26	16.76	162.17	2440.42
77 Other Financial(27)	3626.02	+0.2	3620.50	3603.69	2785.02	3.02	2.45	2.06	20.13	90.56	2179.41
79 Property(42)	2147.22	+0.1	2144.86	2147.28	1721.04	3.11	2.48	1.36	29.53	48.93	1390.80
80 INVESTMENT TRUSTS(125)	3325.67	...	3324.29	3305.98	3170.83	2.31	1.85	1.17	46.17	60.56	1199.37
89 FTSE All-Share(896)	2341.65	...	2341.68	2320.76	1980.09	3.33	2.73	1.98	18.95	66.27	2093.74
105 FTSE All-Share ex IT(770)	2346.88	...	2346.94	2325.74	-	3.36	2.76	2.00	18.62	35.52	1079.48
FTSE Fledgling	1244.50	+0.1	1243.62	1241.28	1219.42	3.32	2.66	1.17	32.12	35.37	1361.01
FTSE Fledgling ex IT	1263.81	+0.1	1262.66	1361.09	1233.12	3.62	2.91	1.20	28.87	37.20	1385.84
FTSE AIM	969.1	-0.2	970.6	967.1	-	1.16	0.92	0.66	80.00†	7.18	891.24

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	4973.3	4954.7	4984.4	4972.5	4966.0	4981.8	4976.6	4969.8	4988.1	4951.1
FTSE 250	-	4675.3	4678.6	4682.4	4684.6	4687.4	4689.2	4691.5	4691.7	4692.7	4671.2
FTSE 350	-	2395.6	2388.7	2392.8	2396.2	2394.0	2400.3	2398.5	2395.8	2401.5	2387.3
FTSE SmallCap	2277.98	2277.80	2277.05	2276.84	2276.33	2277.15	2277.47	2277.97	2278.56	2278.94	2275.96
FTSE All-Share	-	2340.98	2334.60	2338.37	2341.44	2339.42	2346.27	2343.62	2341.24	2346.26	2333.29

Time of FTSE 100 Day's high: 8:42 AM Day's low: 9:48 AM. FTSE 100 1997 High: 5330.8 (03/10/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 1:35 PM Day's low: 9:48 AM. FTSE All-Share 1997 High: 2482.41 (03/10/97) Low: 1989.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown.
‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,400	510	+5
AMVESCAP	863	441	
ASDA Group†	6,100	167½	+3
Abbey National†	928	973	-10
Airtours	164	1202½	+17½
Alliance & Leicester†	1,400	733	-4½
Allied Domecq†	1,400	509	-4½
Anglian Water	796	810	+2
Argos	137	615	+4
Arjo Wiggins	1,100	173	-½
Assoc. Brit. Foods†	753	553	-1½
Assoc. Brit. Ports	585	283½	+1½
BAA†	1,700	503½	-3½
BAT Inds †	2,000	543½	+1½
BBA	1,200	365½	-4½
BOC†	687	943	-7
BG†	5,500	281	-1
BP†	5,700	818	+6
BPB	1,900	338½	-4
BSkyB†	1,300	454½	-3½
BT†	9,100	409	+½
BTR†	12,900	210	+2
Bank of Scotland†	1,500	532	-8
Barclays†	2,600	1468	+23
Bass†	1,200	874½	+½
Billiton†	7,500	148½	+½
Blue Circle†	934	346½	-3½
Boots†	1,700	899	-25
Britannic	389	1012½	+28½
Brit. Aerospace†	928	1560	+10
British Airways†	8,500	540	-4½
British Biotech	11,800	117½	-2
British Borneo	460	446	+1½
British Energy	873	402½	-1
British Land†	1,200	567	-3
British Steel†	5,200	139	-2½
Burmah Castrol	424	986	
Burton	2,600	148	+½
Cable & Wire†	4,300	534	-1
Cadbury Schweppes†	2,600	637	-13
Caradon	1,600	188½	+½
Carlton Comms.†	2,800	465½	-17½
Centrica†	3,400	89½	-1½
Comm. Union†	1,700	845	-3
Compass	698	700½	+½
Cookson	3,300	210½	+8
Courtaulds	3,200	295	+13
Daily Mail A	4	1785	
Danka	9	549	+4
Dixons†	1,400	660	-17
EMAP	304	889½	+5
EMI†	1,400	468	+8
Electrocomps	653	432½	+4½
Energy Group†	1,100	633½	+2½
Enterprise Oil†	1,200	681	-½
Flextech	2	559	+1
Foreign & Col. I.T.	1,200	167	+½
Gallaher	1,000	322½	-2½
Gen. Accident†	472	1011	-24
General Elect.†	8,300	390	
Glaxo Wellcome†	4,400	1344	-6
Granada†	1,400	846	-3½
Grand Met.†	11,600	535	-7
GUS†	3,900	685	-30
Greenalls	2,100	408	+18½
GRE†	3,900	311	+4
GKN†	837	1319	+19
Guinness†	6,400	536½	-6
HSBC (75p shs)†	2,200	1595	-2
HSBC (HK$10)†	1,600	1514	-10
Halifax†	16,800	712	-2½
Hammerson	562	468½	+4
Hanson	2,500	299	
Hays†	2,700	773	+25
Hillsdown	9,600	158½	+1½
Hyder	562	950	+10
IMI	1,100	364	+9½
ICI†	855	865	-2
Imperial Tobacco	2,000	391	-2½
Inchcape	674	211	+1
Johnson Matthey	333	535	-7½
Kingfisher†	2,000	841	-13
Ladbroke†	2,500	282½	-1½
Land Securities†	817	874	-6
Laporte	893	640	+5
Legal & General†	1,400	512	-8
Liberty Intl.	45	497½	+4
Lloyds TSB†	6,800	712	-6
LASMO†	1,600	264	
LucasVarity†	2,900	190	-1½
MEPC	1,400	548	+9
Marks & Spencer†	2,100	621½	-8½
Mercury Asset Man	709	1675	
Misys	808	1700	+40
Morgan Crucible	424	440½	+1
Morrison (Wm.)	1,100	208	+2½
NFC	117	142	
NatWest Bank†	3,000	903	+5
National Grid†	2,900	298	-2
National Power†	3,200	573	
Next†	2,800	738	-7
Northern Foods	511	270½	
Northern Rock	3,800	492	+5½
Norwich Union†	3,400	368	-1
Nycomed Amersham	914	2062½	+5
Orange†	1,200	253	-4½
Pearson†	447	816	-14
P & O†	926	660	
Pilkington	5,400	125	+½
PowerGen†	1,800	777	+3
Premier Farnell	536	418	+12½
Provident Financial	248	732½	+9
Prudential†	1,400	680	+26½
REXAM	1,500	387	+1
RMC†	264	922	
Railtrack†	1,400	1030	+10
Rank Group†	925	347½	-7½
Reckitt & Colman†	775	888	-14
Redland	6,200	343	-2½
Reed Intl.†	1,700	633½	-3½
Rentokil Initial†	2,700	248	+4
Reuters†	2,200	679½	+17½
Rio Tinto†	4,400	736	+6
Rolls Royce†	2,300	241	
Royal & Sun Alliance†	15,100	587	+27
Royal Bk Scotland†	1,100	880½	-3½
Safeway†	9,100	326½	+3
Sainsbury†	3,200	505	+6
Schroders†	145	1838	-18
Schroders N/V†	15	1705	-10
Scottish & New.†	2,900	730½	+6½
Scot. Hydro-Elect.	1,100	490	+10
Scottish Power†	1,500	489	+8½
Sears	424	49	
Securicor	159	271½	-3½
Sema	1,100	1407½	+70½
Severn Trent†	828	960	-10
Shell Transport†	17,500	418½	-2½
Siebe†	2,000	1180	+17
Slough Ests	37	350½	+5
Smith (W.H.)	1,300	390	+4
Smith & Nephew	3,200	171½	+2½
SmKl Beecham†	6,300	602	-7
Smiths Inds †	433	821½	+26½
Southern Elect	1,200	467	+9
South West Water	130	921½	+18½
Stagecoach	177	754½	-9½
Standard Chartd.†	1,800	711	-4
Storehouse	1,500	243½	
Sun Life & Prov †	332	403	+3
TI Group†	2,000	499	+2
Tarmac	3,300	115	-2
Tate & Lyle	[illegible]	[illegible]	[illegible]
Tesco†	[illegible]	[illegible]	[illegible]
Thames Water†	[illegible]	[illegible]	[illegible]
Tomkins†	[illegible]	[illegible]	[illegible]
Unigate	[illegible]	[illegible]	[illegible]
Unilever†	[illegible]	[illegible]	[illegible]
United Assurance	[illegible]	[illegible]	[illegible]
United Biscuits	[illegible]	[illegible]	[illegible]
Utd. News & Media†	[illegible]	[illegible]	[illegible]
United Utilities†	[illegible]	[illegible]	[illegible]
Vendome	[illegible]	[illegible]	[illegible]
Vodafone†	[illegible]	[illegible]	[illegible]
WPP	[illegible]	[illegible]	[illegible]
Wessex Water	[illegible]	[illegible]	[illegible]
Whitbread†	[illegible]	[illegible]	[illegible]
Williams	[illegible]	[illegible]	[illegible]
Wolseley	[illegible]	[illegible]	[illegible]
Woolwich	[illegible]	[illegible]	[illegible]
Yorkshire Water	[illegible]	[illegible]	[illegible]
Zeneca†	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt up until 4.30pm. † Indicates a FTSE 100 index constituent or member. All stocks are rounded. Source: Estel, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 2 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY DECEMBER 1 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	200.63	0.7	176.81	163.20	185.10	196.59	0.5	3.83	199.32	175.44	162.87	184.18	195.54	243.67	190.41	224.61
Austria (21)	186.74	1.4	164.57	151.90	172.29	172.21	1.2	1.95	184.18	162.11	150.50	170.19	170.11	213.59	175.14	196.23
Belgium (27)	253.45	0.3	223.35	206.17	233.83	228.83	0.2	3.01	252.57	222.31	206.38	233.38	228.36	261.11	221.31	225.86
Brazil (30)	233.25	3.5	205.56	189.74	215.20	476.19	3.3	1.57	225.79	198.74	184.50	208.64	460.95	322.44	178.98	181.78
Canada (122)	213.11	0.8	187.80	173.35	196.61	219.42	0.7	1.80	211.44	186.11	172.77	195.38	218.00	233.68	178.27	194.31
Denmark (32)	424.64	1.5	374.21	345.42	391.77	390.07	1.3	1.32	418.41	368.29	341.90	386.63	385.05	429.78	333.94	338.21
Finland (26)	298.89	-0.3	263.40	243.13	275.75	336.59	-0.5	1.87	299.80	263.88	244.97	277.08	338.24	349.43	232.96	237.72
France (84)	234.55	0.1	206.70	190.79	216.40	218.55	0.0	2.44	234.22	206.16	191.38	216.43	218.52	246.23	203.73	212.38
Germany (58)	224.10	0.2	197.49	182.29	206.75	206.75	0.0	1.41	223.68	196.88	182.77	206.69	206.69	243.87	183.03	187.76
Hong Kong, China (66)	373.63	3.6	329.26	303.92	344.70	371.16	3.7	4.31	360.54	317.35	294.60	333.15	357.94	580.03	314.78	512.27
Indonesia (27)	91.11	-2.9	80.29	74.11	84.06	212.95	-0.9	3.16	93.81	82.58	76.66	86.69	214.95	254.90	91.11	220.03
Ireland (16)	384.57	0.6	338.90	312.82	354.80	368.09	0.5	2.68	382.20	336.41	312.30	353.17	366.42	394.88	310.26	321.07
Italy (53)	110.54	0.1	97.41	89.92	101.98	143.46	0.0	1.70	110.39	97.17	90.20	102.01	143.47	115.27	79.11	82.08
Japan (482)	103.05	0.0	90.82	83.83	95.08	83.83	-0.5	0.95	103.05	90.70	84.20	95.22	84.20	141.12	95.91	137.55
Malaysia (107)	171.29	0.6	150.95	139.33	158.03	237.35	1.5	3.07	170.21	149.82	139.08	157.28	233.88	660.85	170.21	596.88
Mexico (27)	1726.72	0.8	1521.66	1404.57	1593.05	15993.04	0.5	1.58	1713.49	1508.23	1400.14	1583.34	15321.92	1901.96	1147.96	1195.93
Netherlands (19)	411.65	0.7	362.76	334.85	379.78	375.72	0.6	2.23	408.73	359.77	333.99	377.68	373.66	440.87	313.78	324.16
New Zealand (14)	81.03	1.8	71.41	65.91	74.76	70.86	2.2	4.36	79.60	70.06	65.04	73.55	69.31	96.47	75.37	92.98
Norway (38)	324.34	0.6	285.83	263.83	299.24	317.31	0.0	1.92	322.37	283.75	263.42	297.88	317.23	374.54	277.33	285.28
Philippines (22)	84.27	-0.1	74.26	68.55	77.75	147.20	0.0	1.40	84.39	74.28	68.96	77.98	147.19	214.07	78.40	198.61
Singapore (42)	256.03	2.5	225.63	208.26	236.21	189.96	2.9	1.68	249.90	219.96	204.20	230.92	184.80	448.01	215.21	417.29
South Africa (43)	271.40	0.6	239.17	220.77	250.39	288.30	0.5	3.01	269.92	237.59	220.56	249.42	286.93	370.12	259.47	324.48
Spain (33)	270.81	0.1	238.65	220.29	249.85	307.76	-0.1	2.20	270.47	238.07	221.01	249.93	307.91	277.33	198.92	200.14
Sweden (46)	490.40	-0.1	432.16	398.90	452.43	565.32	-0.3	1.83	490.63	431.86	400.91	453.36	567.10	539.94	402.43	413.13
Switzerland (32)	329.32	0.7	290.21	267.88	303.83	292.47	0.7	1.15	326.94	287.77	267.15	302.10	290.39	329.59	231.69	240.47
Thailand (39)	22.74	-6.5	20.04	18.50	20.98	36.83	-4.5	7.63	24.32	21.41	19.87	22.47	38.58	113.37	22.74	113.37
United Kingdom (215)	328.05	0.9	289.98	267.66	303.59	289.96	1.1	3.40	326.00	286.95	266.39	301.24	286.95	337.99	261.60	273.36
USA (642)	395.79	-0.3	348.79	321.95	365.15	395.79	-0.3	1.56	396.96	349.41	324.37	366.81	396.96	399.82	299.43	307.82
Americas (821)	359.45	-0.2	316.77	292.39	331.63	303.32	-0.2	1.57	360.18	317.04	294.32	332.83	303.97	365.75	268.24	281.44
Europe (705)	285.28	0.6	251.40	232.06	263.20	265.59	0.5	2.42	283.69	249.70	231.81	262.14	264.22	298.25	227.46	233.76
Nordic (147)	424.46	0.2	374.05	345.27	391.60	428.34	-0.1	1.76	423.54	372.80	346.09	391.37	428.60	464.83	345.30	353.16
Pacific Basin (874)	113.60	0.4	100.11	92.41	104.81	93.04	0.1	1.60	113.11	99.56	92.42	104.51	92.92	158.99	107.50	156.26
Euro-Pacific (1579)	185.22	0.5	163.23	150.67	170.88	157.78	0.4	2.12	184.27	162.19	150.57	170.27	157.19	209.12	173.55	188.45
North America (764)	384.17	-0.2	338.54	312.49	354.43	383.91	-0.2	1.57	385.12	338.98	314.69	355.86	384.89	389.57	286.81	301.04
Europe Ex. UK (490)	255.50	0.3	225.16	207.83	235.72	245.65	0.2	1.85	254.61	224.11	208.05	235.27	245.14	267.07	202.63	207.72
Pacific Ex. Japan (392)	209.22	1.9	184.38	170.19	193.08	203.67	2.1	3.81	205.23	180.65	167.70	189.64	199.47	320.65	194.30	317.34
World Ex. US (1801)	189.00	0.6	166.55	153.74	174.37	164.47	0.4	2.11	187.93	165.42	153.57	173.66	163.78	212.89	176.94	190.62
World Ex. UK (2228)	248.60	0.0	219.07	202.22	229.35	225.31	-0.1	1.64	248.52	218.75	203.07	229.64	225.45	262.69	211.16	223.17
World Ex. Japan (1961)	391.94	0.1	292.52	270.01	306.24	323.83	0.1	1.96	331.47	291.76	270.85	306.29	323.42	344.35	264.51	274.64
The World Index (2443)	255.44	0.1	225.11	207.78	235.67	231.25	0.1	1.83	255.12	224.56	208.47	235.74	231.12	268.47	218.61	227.48

 PLEASE NOTE: Amendments to indices 2/12/97 applied to USA, related regional indices and The World Index. CONSTITUENT CHANGE 3/12/97: Name change: American Finance Group to American Finance Holdings (USA). CONSTITUENT CHANGE WITH EFFECT 4/12/97: Deletion: Amcoss (Australia).

NEW YORK STOCK EXCHANGE PRICES

4 pm close December 3

1997 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

- A - · - B - · - C - · - D - · - E - · - F - · - G - · - H - · - I - · - J - · - K - · - L - · - M - · - N - · - O - · - P - Q - · - R - · - S - · - T - · - U - · - V - · - W - · - X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ss-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 2	Dec 1	Nov 28	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	8018.83	8013.11	7823.13	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.57	104.58	104.59	104.78 (20/11)	101.09 (14/4)	104.78 (20/11/97)	54.99 (1/10/81)
Transport	3289.30	3281.79	3199.96	3359.27 (15/10)	2222.07 (2/1)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	269.47	261.16	258.64	281.16 (1/12)	209.47 (25/4)	281.16 (1/12/97)	16.53 (8/7/32)

DJ Ind. Day's high 8096.86 (8048.92) Low 7935.03 (7823.82) (Theoretical) Day's high 8041.71 (8015.10) Low 7985.21 (7825.12) (Actual)

Standard and Poors	Dec 2	Dec 1	Nov 28	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	971.68	974.77	955.40	983.12 (7/10)	737.01 (2/1)	983.12 (7/10/97)	4.40 (1/6/32)
Industrials♥	1127.57	1132.41	1114.02	1148.82 (7/10)	865.42 (11/4)	1148.82 (7/10/97)	3.52 (30/6/32)
Financial♥	118.10	117.82	113.90	118.10 (2/12)	80.75 (2/1)	118.10 (2/12/97)	7.13 (4/9/74)
Others							
NYSE Comp.	507.64	507.73	499.10	514.21 (7/10)	389.47 (11/4)	514.21 (7/10/97)	4.64 (25/4/42)
Amex Comp	665.70	664.13	662.11	721.90 (7/10)	541.20 (28/4)	721.98 (7/10/97)	524.20 (16/7/98)
NASDAQ Cmp	1606.38	1630.72	1600.55	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	432.48	434.16	429.92	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.36 (7/12/93)

■ RATIOS

	Nov 28	Nov 21	Nov 14	Year ago
Dow Jones Ind. Div. Yield	1.74	1.73	1.78	2.02
	Nov 26	Nov 19	Nov 12	Year ago
S & P Ind. Div. yield	1.50	1.50	1.56	1.81
S & P Ind. P/E ratio	25.78	25.38	24.36	23.30

US DATA

■ MARKET ACTIVITY

● Volume (million)	Dec 2	Dec 1	Nov 28
NYSE	581.480	596.590	189.080
Amex	26.582	30.974	10.297
NASDAQ	662.123	619.427	213.852

NYSE	Dec 2	Dec 1	Nov 28
Issues Traded	3,489	3,445	3,259
Rises	1,601	2,018	1,872
Falls	1,317	984	1,035
Unchanged	521	442	552
New Highs	252	298	125
New Lows	53	63	46

■ NYSE TRADING ACTIVITY — Volume : 581,480,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Cabletron	11,526,600	15⅞	−7½
Texas Instr	5,692,400	47¼	−4⅜
Compaq	5,038,700	64	−2
Warn-Lmbt	4,788,200	118¾	+4¼
Ph Morris	4,559,800	44⅞	+⅛
Coca Cola	4,388,000	65⅝	+1⅜
Tel Brasil	4,277,600	108⅞	+⅞
Merck	3,869,800	95¼	−⅛
Schlmbrgr	3,504,800	80⅝	+2⅞
Teradyne	3,486,300	33¼	+1¾

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Cooper Cam	62⅞	+5⅜	+9.5
Tel Sys Sv	29⅞	+2½	+9.3
Lexmark	34¾	+2⅜	+8.0
Dow Lufkin	79¼	+3¼	+4.2
Downs			
Cabletron	15⅞	−7½	−32.3
Bay Ntwk	27¼	−3	−9.8
Texas Instr	47¼	−4⅜	−8.8
W Digital	19¾	−1¾	−8.3

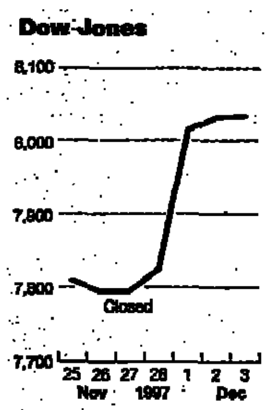
■ NASDAQ TRADING ACTIVITY — Volume :662,122,000

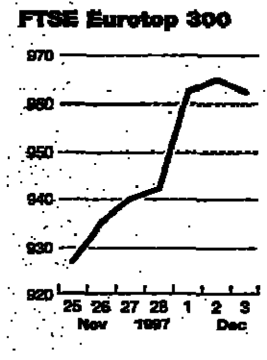
■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Intel	17,029,600	78¼	−3⅞
Cisco Sys	15,236,600	86½	−3⅞
Altera	14,057,000	40¾	−10⅝
3Com	13,886,900	35⅜	−3⅛
Cmptr Cp	11,330,700	24¼	−3¼
Appl Matl	11,279,300	33⅞	+½
Oracle	10,142,800	30½	−1½
Dell Comp	8,244,300	88⅞	−1¼
LM Erics Tel	7,539,300	38¼	−3¼
VLSI Tech	6,886,200	19⅞	−3¾

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Food Tech	11⅞	+6⅝	+125.3
Market Fed	69	+17¾	+34.7
Mid Facts	21⅛	+3¼	+18.2
Sterigenic	21⅞	+3⅛	+17.0
Downs			
Nat Research	6¾	−11¾	−63.5
Fst Bancp	27¼	−12½	−31.2
Agouron Ph	31	−8½	−21.5
Altera	40¾	−10⅝	−21.2





JAPAN

	Dec 3	Dec 2	Dec 1	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	16589.51	16910.29	17007.59	20681.07	15062.52	38915.9	85.25

■ TOKYO TRADING ACTIVITY — Volume : 457,000,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Yamaichi Sec	92,817,000	2	
Daiwa Bank	18,121,000	330	+15
Yasuda T & B	14,687,000	130	−6
Mitsui T & B	11,678,000	280	−16
Sakura Bank	10,962,000	465	+3
Hokk Takr Bk	10,717,000	1	−1
Daiwa Secs	8,379,000	442	−42
Fuji Bank	7,923,000	692	−28
Np Cred Bk	7,351,000	118	−2
Sankyo	7,258,000	3130	−420

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Murow	500	+50	+11.1
Ashikaga Bk	263	+22	+9.1
Shokusn Jtku	54	+4	+8
Gakken	265	+19	+7.7
Downs			
Jujiya	101	−20	−16.5
Daiichi Kst	64	−11	−14.7
Sekiyu Kyo	100	−14	−12.3
Sankyo	3130	−420	−11.8

FRANCE

	Dec 3	Dec 2	Dec 1	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2902.35	2913.09	2918.48	3094.01	2256.97	3094.01	984.61

■ PARIS TRADING ACTIVITY — Volume : 386,974,130

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Usinor	2,108,507	92.6	−3.4
Axa-UAP	1,259,672	438.8	+6
Fr Telecom	1,057,254	215.8	−1.2
Paribas A	989,137	442.8	+2.8
Rho-Poc A	934,009	269	−1.5
Elf Aqtne	841,057	671	+7
Salta	837,869	211.9	+2.9
Alcatel Als	556,499	734	−22
Total B	536,837	615	−4
Soc Generale	511,093	803	+15

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Up			
Arjomari	1634	+148	+10
Lucia	55	+4.5	+8.9
Cascades	24	+1.8	+8.1
Provide	25	+1.7	+7.3
Downs			
Mille Am	37	−7.95	−17.7
Baccarat	450	−90	−16.7
Un Crd Bat	14.15	−2.6	−15.5
Agree	60.9	−10.1	−14.2

GERMANY

	Dec 3	Dec 2	Dec 1	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4082.89	4072.96	4068.05	4438.93	2848.77	4438.93	931.18

■ FRANKFURT TRADING ACTIVITY — Volume : 9,901,357

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Lifbanq Rg	1,151,917	35.2	+0.25
Bayer	889,982	66.9	+0.25
Deutsche Bk	598,421	114.5	−0.5
Veba	556,138	106.6	−0.7
BASF	509,717	65.1	+0.6
Siemens	502,357	108.7	−1.25
RWE Pref	453,430	75.5	+0.8
Dt Telekom	400,181	38.8	
Hoechst	381,543	63.35	+0.15
Commzbnk	356,518	61.8	−0.1

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Bowe Sys	84	+8	+10.5
Zanders	140	+10	+7.7
Hochtief	79.5	+5.2	+7.0
Asc Al Hn	449.5	+22.5	+5.3
Downs			
Babcock	111	−9	−7.5
Herlitz	162	−13	−7.4
Spar Hndls	24.2	−1.9	−7.3
Herlitz Pf	105	−8	−7.1

UK

	Dec 3	Dec 2	Dec 1	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	4970.7	4977.6	4921.8	5330.80	4056.60	5330.8	986.9

■ LONDON TRADING ACTIVITY — Volume : 732,500,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Shell T&T	17,463,480	418½	−2½
Halifax	16,781,280	712	−2½
Royal & Sun	15,084,380	587	+27
BTR	12,834,200	210	+2
Grand Met	11,586,890	535	−7
BT	9,149,224	469	+½
Safeway	9,118,836	326½	+3
TBI	8,458,401	90½	
Br Airways	8,455,465	540	−4½
GEC	8,328,554	390	

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Watmoughs	287½	+90	+45.6
Holiday Ch	235½	+41½	+21.3
Tele-Cine	48½	+8	+19.7
Heath (C)	147½	+23½	+18.0
Downs			
VCI	115½	−77	−40.0
Tams (J)	32½	−11½	−26.1
Pegasus	53½	−16	−23.0
VideoLogic	44	−7	−13.7

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	975.00	974.00	−1.10	977.40	971.60	101,932	354,571
Mar	985.50	984.70	−1.20	985.50	983.50	19,279	52,147
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	16800.0	16640.0	−260.0	16850.0	16570.0	22,794	146,906
Mar	16830.0	16610.0	−310.0	16870.0	16580.0	7,469	58,891

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2910.0	2908.0	−12.0	2930.0	2901.0	10,661	44,572
Jan	2917.0	2915.0	−12.0	2917.5	2916.5	21	4,594
■ DAX							
Dec	4100.0	4075.0	−25.0	4123.0	4060.5	16,060	72,156
Mar	4137.0	4110.5	−19.5	4149.5	4101.0	328	10,087

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2482.0	2454.0	−34.0	2482.0	2438.0	5,457	25,649
Jan	2466.0	2466.0	−32.0	2466.0	2466.0	10	804
■ SOFFEX							
Dec	5926.0	5917.0	−9.0	5947.0	5879.0	3,423	20,045
Jan	-	5925.0	-	-	-	27	1,768

WORLD MARKETS AT A GLANCE

Country	Index	Dec 3	Dec 2	Dec 1	1997 High	1997 Low	Yield	P/E
Poland	WIG	14893.3	14872.2	14411.6	18339.40 18/2	14223.70 25/11	1.74	10.7

Shares edged higher for the fourth session running but there were signs of profit-taking.

Country	Index	Dec 3	Dec 2	Dec 1	1997 High	1997 Low	Yield	P/E
Portugal	BVL 30	3864.33	3659.03	(c)	3886.81 3/10	2186.57 2/1	1.65	26.8
	PSI 20	8520.82	8509.01	(c)	8803.52 3/10	5152.94 2/1		

NASDAQ NATIONAL MARKET

4 pm close December 3

AMEX PRICES

4 pm close December 3

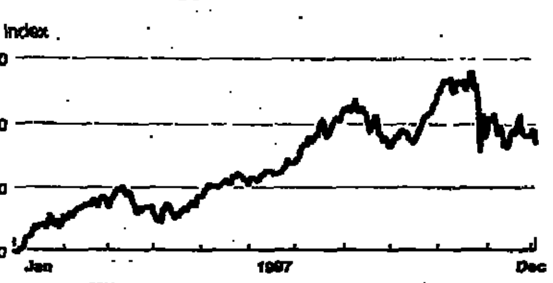
EASDAQ

FINANCIAL TIMES Thursday December 4 1997

Markets focus on wage pressures in US

WORLD OVERVIEW

Finland: off its best



Source: Datastream/ICV

News of a deal between Korea and the International Monetary Fund on a bail-out package may have given market sentiment a modest lift, but investors were apparently on hold ahead of Friday's non-farm payrolls report in the US, *writes Philip Coggan.*

Bob Craven, of the Fixed Income Management Group in San Francisco, says that the risks are quite high that the bond market will fall in response to the report. The consensus forecast is for an addition of 210,000 workers, but Mr Craven argues that this will not be the key figure in determining market reaction.

The main focus will be on wage pressure. "Average weekly earnings are likely to once again surprise on the upside," says Mr Craven.

US stock market commentators are concerned not only about inflationary pressure but also that the Asian crisis, and tight labour markets, might put a squeeze on corporate earnings growth.

The latest figures from IBES show that US earnings estimates for 1998 were edged down by 0.8 of a percentage point in November, but analysts are still looking for a very healthy growth rate of 14.7 per cent.

European markets were fairly quiet yesterday, with Helsinki one of the few bourses to experience a substantial move. The HEX index's 2.4 per cent fall was largely due to the decline in Nokia, the telecommunications group which frequently has a significant influence on the Finnish market. Nokia, along with Swedish rival Ericsson, was the subject of reported downgrades by Merrill Lynch and Bank-America.

James Cornish, European markets strategist at NatWest Markets, says that markets are "getting back on to solid ground. Psychologically, fund managers are still worried about the potential for things to go wrong in Japan and the rest of Asia. But they are sitting on quite a lot of money and the opposite danger is that they might get left behind as others move back into the market."

The bearish argument is that corporate earnings estimates are going to be reduced to reflect the economic problems of Asia and the potential for competition in export markets from Asian companies operating in devalued currencies.

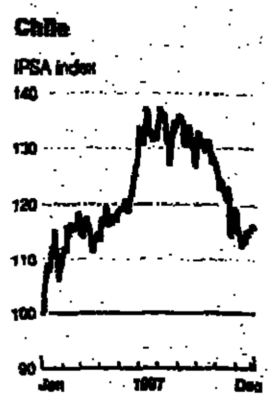
Those downgrades have not yet come through. IBES reports that estimates of 1998 German earnings growth were edged down by 0.2 of a percentage point in November, but forecasts for 1998 French and Italian earnings were increased by 2.3 percentage points and 0.7 of a point respectively.

"Earnings estimates are going to come down a bit but then again interest rates will not go up as much as expected, neutralising the effect on equity valuations," says NatWest's Mr Cornish.

EMERGING MARKET FOCUS

Slim pickings in Santiago

Chile



Source: Datastream/ICV

Until mid-year, 1997 looked like the year the Chilean stock market would put in a strong recovery. The leading IPSA index was 15 per cent ahead by early July and seemed in good shape. Then came the start of the Asian troubles, followed by fears of devaluations in Brazil and Argentina. Suddenly analysts were trying to disentangle the "real" Chile risk from the neighbourhood effect.

The short-term risks to the economy are real enough. Lower growth prospects in Asia are cutting demand for copper, by far Chile's biggest foreign exchange earner, in a market where over-supply was already starting to be felt. Stocks are up and prices are at a four-year low. Asian economies account for about one-third of Chile's copper output.

The impact feeds through only indirectly to the Santiago bourse, for few of the big copper producers trade there. Other sectors are more directly affected, such as the forest products and fishing companies, which also rely heavily on Japan and other Asian markets.

The most immediate effect has been an attack on sentiment and, from late October, a rush into dollars. "People anticipate deteriorating terms of trade, but they also just feel safer in dollars, it's a psychological factor," says Jane Winslow of HSBC James Capel in Santiago.

By the end of last week the central bank was forced to intervene in the foreign exchange market when the dollar rose above 440 pesos, and it came in again on Tuesday, with an estimated $180m.

The central bank has international reserves of $18bn, which covers the cost of a year's imports, as well as copper and oil stabilisation funds where windfall earnings or savings are salted away. "The financial system is sound and well-supervised, the public sector runs a steady surplus, so we are as well protected as it is possible to be," says Carlos Massad, central bank president.

But a higher exchange rate in real terms is bad news for the stock market, because cheaper imports have been helping to bring down inflation to an estimated 5.9 per cent for 1997. Without that help, Mr Massad will have to rely on interest rates to keep the lid on domestic demand.

Thus long-term rates are likely to remain high – central bank eight-year notes currently yield 6.9 per cent in real terms. There will be no new cuts in interest rates until at least mid-1998, Ms Winslow believes, and domestic investors such as the private pension funds will continue to shift their portfolios in favour of fixed income paper and stay underweight in equities. Pension funds manage assets of $32bn, while the Santiago bourse has a capitalisation of about $80bn.

For foreign investors seeking bargains, the pickings are made slim by what many outsiders see as stiff entry restrictions. The 35 per cent tax on capital gains and a one-year lock-in period mean most foreign investors are limited to the 25 stocks with ADR programmes.

Imogen Mark

US equities dip on tech downgrades

AMERICAS

US stocks moved strongly lower yesterday as a slew of analysts' downgrades hit the computer sector hard for a second day, *writes John Labate in New York.*

By early afternoon all major indices were down. The blue-chip rich Dow Jones Industrial Average fell by 49.24 or 0.61 per cent to 7,969.59. The broader Standard & Poor's 500 index lost 4.71 at 968.97.

In contrast, Treasuries continued to rise, as overseas and domestic buyers drove yields lower. By lunchtime the 30-year Treasury bond price was up 11/32 to 101 7/32, sending the yield down to 6.012 per cent.

Attention was focused for a second day on the technology sector, as networking and semiconductor chip companies came under new pressures. The Nasdaq composite average, which is heavily weighted in technology shares, was down 13.25 or 0.82 per cent to 1,593.12.

Analysts lowered their ratings on several key technology shares. 3Com, the networking equipment maker, fell 6.9 per cent or $2 7/16 to $32¾ after Bear Stearns, DLJ and Lehman Brothers reduced their estimates of 1998 earnings per share.

Rival networker Cabletron, which lost 32 per cent of its share value on Tuesday, fell another 6.8 per cent after Bear Stearns cut the stock to a "neutral" rating. Chipmaker Texas Instruments lost $1 13/16 to $45 7/16 after an analyst cut his view of 1998 earnings per share.

Chips group Altera, which fell 21 per cent on Tuesday, tumbled a further $1¼ to $39¾ after Deutsche Morgan Grenfell cut its rating to "accumulate".

H.J. Heinz, the foods company, gained $1⅞ to $54¼ the day after it announced its chief executive would step down. Among Dow components, industrial equipment producer Caterpillar fell $1 13/16 to $49⅝ in spite of announcing a contract renewal.

Banking shares were mixed in spite of the reduction in bond yields. Citicorp was $13/16 higher at $128 13/16.

TORONTO lost ground in morning trading as weakness in gold stocks more than offset strength in the property, financial and energy sectors. At midsession the 300 composite index was 29.26 lower at 6,637.50.

Gold stocks were hit as Lehman Brothers reiterated its bearish stance on the sector and recommended that investors reduce their weightings. Barrick fell 25 cents to C$23.25 and Placer Dome came off 20 cents to C$16.85.

Peter Ward, gold analyst at Lehman, said he did not think that gold stocks had "fully discounted the drastic decline in gold price that has already taken place".

Elsewhere, property leader TrizecHahn received a boost after the company announced it was acquiring the Sears Tower in Chicago for a gross value of $844m.

Analysts said the deal reinforced TrizecHahn's reputation for acquiring office buildings at attractive prices. The shares rose 95 cents to C$35.30.

São Paulo hits 10,000

SAO PAULO breached the magic 10,000 barrier at the opening, with the Bovespa index touching 10,049 in early trade. However, the market later tracked Wall Street into negative territory, and by midsession, the index was at 9,943, down 21. Dealers said that investors were continuing to take profits in blue chips.

Telebras was a victim. Having touched R$24.50 at the start after reporting better than expected results, the shares fell back to stand at R$123.50, up 70 cents.

MEXICO CITY also saw shares give up early gains as the market succumbed to a bout of profit-taking after six successive rising sessions. By midsession, the IPC index was 37.7 lower at 5,088.97.

BUENOS AIRES moved in line with its neighbours, with the Merval index standing 0.75 lower at 688.15 by midsession.

Strongest risers were property developer Irsa and construction group Corcemar, which gained 2.7 per cent and 2.2 per cent respectively.

Zurich rumours lift dull day

EUROPE

Bank merger rumours resurfaced in Switzerland to keep **ZURICH** pointing higher on a dull day generally for bourses.

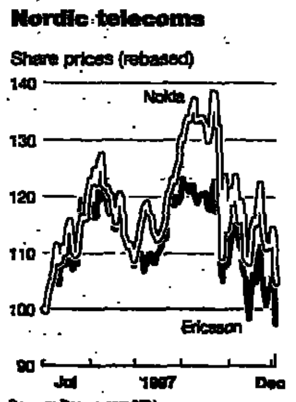
UBS racked up turnover of SFr610m before before closing SFr65 or nearly 3.5 per cent higher at SFr1,914. The talk in the market was about a link-up with arch-rival SBC, which added SFr13 at SFr383.

Credit Suisse, the third of the big three Swiss banks, barely blinked, ending SFr1.00 better at SFr214.50. The SMI index closed 2.80 higher at 5,922.7.

PARIS continued to trade recent ranges in dull volume and the fact that most of the day's features were on the downside did nothing to bolster sentiment.

SGS-Thomson fell precipitously following the overnight shakeout for high techs stocks on Wall Street. The shares fell to FFr382 before recovering slightly to close FFr32.00 or 7.6 per cent lower at FFr388.

Nordic telecoms



Source: Datastream/ICV

Steelmaker Usinor was well dealt at 2.1m shares, sliding FFr3.40 or 3.5 per cent to FFr92.90 on talk of softening European demand. The news of heavy retrenchments at Finnish telecoms equipment leader Ericsson sent Alcatel Alsthom down FFr22.00 to FFr734.

Valeo brought some relief to the bulls, surging FFr13.70 or 3.5 per cent to FFr404.7 after a French press report hinted at a near doubling of the dividend for this year.

Oil prices staged a modest recovery, helped by the sudden burst of cold weather in Europe, and Elf Aquitaine rallied FFr7.00 to FFr671. The CAC 40 index ended 10.74 lower at 2,902.35.

Among second-liners, a Goldman Sachs upgrade and a reset target share price of FFr740 lifted luxury goods group Christian Dior by FFr20.00 to FFr652.

FRANKFURT see-sawed through the day before ending slightly lower, weighed down by a weak start on Wall Street. The Xetra DAX index fell 21.85 to 4074.55.

Engineering group Mannesmann was the main feature, rising DM32 to DM877.50 after Merrill Lynch upgraded its recommendation from "buy" to "accumulate", and increased its 12-month share price target to DM1,025 from DM920.

Merrill said the upgrade reflected its more positive stance on Mannesmann's mobile and fixed-line telephone networks, which have been building alliances in France and Italy and are "excellently positioned" for next year's European telecoms deregulation.

Elsewhere, a sell-off in European telecoms-related technology stocks weighed on Siemens and the stock fell DM1.25 to DM106.70.

Deutsche Babcock continued its strong run following Tuesday's better than expected results, adding DM4.65 to DM102.

HELSINKI and **STOCKHOLM** were dominated by a sell-off in telecoms stocks, hit by Tuesday's announcement from Ericsson of Sweden that it plans to cut 10,000 jobs.

Bank of America reduced its 1998 estimates for Ericsson and its Finnish rival, Nokia. Both stocks came under additional pressure from a Merill Lynch downgrade. Ericsson fell SKr20 to SKr297 and Nokia FM30 to FM404.

Analysts said the news had reawakened concerns that the market for mobile telephone handsets might be slowing. Ericsson and Nokia dominate their respective markets so the sell-off helped push Stockholm lower, with the general index down 45.98 at 2,994.55. In Helsinki, the general index finished 82.85 lower at 3,357.97.

AMSTERDAM remained in low gear with the AEX index ending a quiet session 4.23 lower at 909.47. Philips, hit by high tech worries in the US, came off steeply, as did KLM where investors took fright at a renewed wave of link-up rumours.

Philips fell Fl 6.20 or 4.5 per cent to Fl 131.80 and KLM, where the talk was of an imminent alliance with Alitalia of Italy, shed Fl 2.80 to Fl 72.10.

MADRID finished slightly lower for the second successive session after a lacklustre day which saw little trade. The general index was 3.43 lower at 618.27. Continued weakness in European oil stocks weighed on Repsol, which ended Pta100 lower at Pta6,440.

MILAN was also bereft of action outside the oil sector, where Eni, the most heavily weighted stock in the Mibtel index, slipped L245 to L9,784 as J.P. Morgan downgraded the stock from "buy" to "market performer". The Mibtel index shed 8 at 15,584.

MOSCOW rose by more than 6 per cent in spite of sharp rises in short-term interest rates, with energy blue chips making most of the running. Lukoil closed at $20.08, up $1.03. Analysts said the market was untroubled by the recent rise in three-month interest rates because equities were more sensitive to longer-term rates, which had moved less. The RTS index ended at 340.22, up 19.84.

FTSE Actuaries Share Indices — European series

December 3

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	982.40	−0.29	−2.80	2.34	0.02	988.07
FTSE Eurotop 100	2224.20	−0.38	−8.55	–	–	–
FTSE Eurotop 300 Regions						
300 UK	971.99	−0.10	−0.93	3.27	0.00	986.46
300 Ex-UK	957.54	−0.40	−3.89	1.81	0.03	959.81
300 Eurobloc	944.39	−0.43	−4.11	2.02	0.04	947.74
300 Ex-Eurobloc	976.09	−0.19	−1.88	2.57	0.00	985.19
FTSE Eurotop 300 Economic Groups						
Resources	919.95	−0.23	−2.12	2.99	0.00	932.75
General Industries	920.40	−1.00	−9.29	2.14	0.09	922.57
Consumer Goods	954.87	−0.51	−4.94	1.92	0.00	984.90
Services	988.53	−0.44	−4.32	2.25	0.00	995.29
Utilities	1005.57	−0.11	−1.15	2.89	0.00	1013.16
Financials	987.30	+0.34	+3.36	2.34	0.00	992.28

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997 All rights reserved.

Written and edited by Jeffrey Brown, Jonathan Ford and James Montgomery.

SOUTH AFRICA

Johannesburg shares ended lower, hurt by sliding gold shares and concerns about the economy. The all-share index closed down 44.8 at 6,296.8.

Continued falls in the bullion price, which slipped to a new 12½ year low, helped the gold share index fall 1.9 per cent to 701.7. Sentiment was also hit after the finance ministry cut this year's economic growth forecast to 2 per cent.

Financials undermine Tokyo

ASIA PACIFIC

Shares in **TOKYO** drifted lower as fresh weakness emerged in financial sector and high-technology shares, *writes Gillian Tett.*

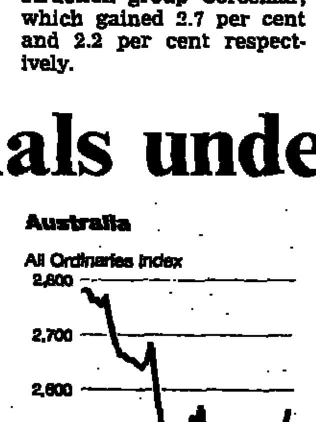
The Nikkei 225 average closed 1.9 per cent lower at 16,585.51, after briefly rising above the psychologically important 17,000 barrier at the start of the week.

However, trading was muted ahead of the gross domestic product data released after the markets had closed. Turnover was 457m, down from 563m the previous day.

Traders warned that the more significant market movements were likely to come today, after investors had digested the figures.

The data were weaker than expected, and could trigger another fall in share prices, some traders said. The GDP data, which refer to the third calendar quarter, are considered particularly important because they provide the first signs that the weakness in the economy seen over the summer did not stem from April's consumption tax increase alone.

Australia



Source: Datastream/ICV

Financial stocks dominated yesterday's trading, as investors continued to reassess the sector after the closure of three major institutions last month.

Yamaichi Securities, which announced it was closing last week, was the most heavily traded issue, with 92.8m shares changing hands. It ended steady at Y2. Daiwa Bank, the second most heavily traded, added Y15 at Y330 while Yasuda Trust Bank closed Y6 lower at Y130.

SYDNEY pushed higher for the fourth day, with the All Ordinaries index adding 37.6 or 1.5 per cent at 2,562.4.

There was said to be keen bargain hunting among resource stocks. WMC gained 31 cents to A$5.18 and Comalco rose 22 cents to A$6.22. BHP advanced 47 cents to A$14.61 and Rio Tinto 40 cents to A$16.90.

Among retailers, Woolworths rose 17 cents to A$4.87 and Coles Myer 12 cents to A$7.70. In banks, ANZ added 40 cents at A$10.75 and NAB 34 cents at A$20.44.

WELLINGTON rose 53.19 or 2.3 per cent to 2,391.94 on the 40 capital index following a strong rally for NZ Telecom and forestry shares. Telecom gained 27 cents to NZ$8.76 and Fletcher Challenge Paper gained 18 cents to NZ$3.45.

SEOUL ended little changed after a turbulent session dominated by South Korea's bail-out agreement with the IMF.

Although the formal announcement was delayed until after the market's close, details of the package leaked out towards the end of trading.

News of drastic market opening measures, with the foreign share ownership ceiling being lifted next year to 55 per cent from the current 26 per cent, prompted a late rally.

Having fallen by as much as 5 per cent during the day, the composite index ended at 379.31, up 2.44.

KUALA LUMPUR ended higher as the market continued its cautious recovery from recent lows. However, volumes were very thin and brokers cautioned against reading too much into the rise. The composite index ended 11.11 higher at 548.06.

TAIPEI finished almost 3 per cent higher as investors, encouraged by signs of greater liquidity in the market, shrugged off political worries. Paper, steel and textile shares all gained more than 5 per cent. The weighted index rose 222.98 to 7,902.851.

HONG KONG had a volatile session with the Hang Seng index swing through an arc of almost 300 points before closing little changed at 11,207.58, up 8.77.

Volume fell back from Tuesday's high levels although dealers reported interest from foreign institutions during the afternoon session.

FT auto

FINANCIAL TIMES REVIEW OF THE AUTOMOTIVE INDUSTRY Thursday December 4 1997

inside

Haig Simonian considers the decision of three luxury carmakers to unveil their latest concept models far away from their environmentally-sensitive domestic market

German muscle is flexed overseas

Not even Nietzsche could unravel the paradox of Germany's big carmakers at present. At the Tokyo motor show in October, Mercedes-Benz, Volkswagen and BMW astounded their rivals with a trio of overblown and overpowered new models.

Mercedes-Benz showed off the Maybach, its concept for the plutocrat's car of the millennium. Longer, fatter and with much more muscle than its flagship limousines, the Maybach marks the company's bid to rival Rolls-Royce. If Asia's current financial woes prove passing, the car, intended largely for the region's ultra-rich, should go on sale early next century.

VW focused on the shocking yellow sportscar built to showcase its massive new 12-cylinder, 5.6-litre engine. The show-stopping supercar, built in record time, highlighted the ambitions of Ferdinand Piëch, VW's combative chairman, to take on Mercedes-Benz in the luxury car league.

Not to be outdone, BMW revealed its Z07, a two-seat convertible with the performance to leave most Ferraris at the lights. Although the company has not commited itself to putting the car, expected to cost about DM300,000, into production, it looks certain to go ahead.

The Germans' obsession with engineering *machismo* at Tokyo was not surprising: the companies were sending a message to Japan and to upstart manufacturers from Asia that Europe – Germany in particular – was still a force to be reckoned with. The weak D-Mark, greater labour flexibility and an unparalleled new product offensive have shown Germany's leading carmakers in excellent health.

Tellingly, however, the Germans chose to display their new ideas in Tokyo rather than their own premier show in Frankfurt the previous month. Such ostentatious cars – even if only concepts now – would have been lambasted by Germany's powerful Green movement.

Indeed, the high-powered German products contrasted starkly with the raft of environmentally-minded new products and concepts revealed by Toyota, Honda, Mitsubishi and Japan's other marques just across the central corridor.

The Japanese may have been influenced by the timing of this month's big UN conference on climate change in Kyoto – the largest such gathering since the Rio Earth Summit of 1992. But their commitment to greener vehicles powered by alternative fuels appeared both commercially-driven and genuine.

The contrast has provoked doubts about how accurately Germany's carmakers are reading the public's mood. Such *doubts about possible* misconceptions have been heightened by recent upsets, suggesting some of Germany's car companies may not quite have their fingers on the pulse – or may be biting off more than they can chew.

The mishaps involving Mercedes-Benz's new A Class car have already been chronicled exhaustively in the media. Seldom has so proud a company been so humbled. Fewer pundits have noted the company's equally embarrassing decision to ditch a planned new four-cylinder engine range because it did not perform adequately.

Not that VW, which appears to be making a mission of challenging Mercedes-Benz, has reason to gloat. Production of the new Golf has been disrupted by VW's eleventh-hour decision to strengthen the car's door pillars.

Such modifications just before volume production are highly unusual and call into question VW's own test procedures. Dealers have been left starved of product – to the extent that VW may compensate some German outlets which organised special launch parties only to discover they had been sent no Golfs to toast.

The resurgence of the German motor industry – including Porsche's revival and productivity gains at Ford and Opel – has been impressive, and belied doomsters who argued Germany would be marooned competitively by high costs and *inflexible workers. But the latest* events at Mercedes-Benz and VW indicate not all is in order yet, no matter how soaring their latest ambitions.

Prospects looking bleak in Asia

The economic earthquakes convulsing Asia and occasionally rocking South America have already rumbled ominously for the motor industry in both regions.

Long-term growth forecasts for cars and commercial vehicles in Asia remain unchanged. Even shorter-term prospects for India and China, potentially the region's biggest markets, have not been downgraded in spite of bottoming bourses and collapsing currencies elsewhere.

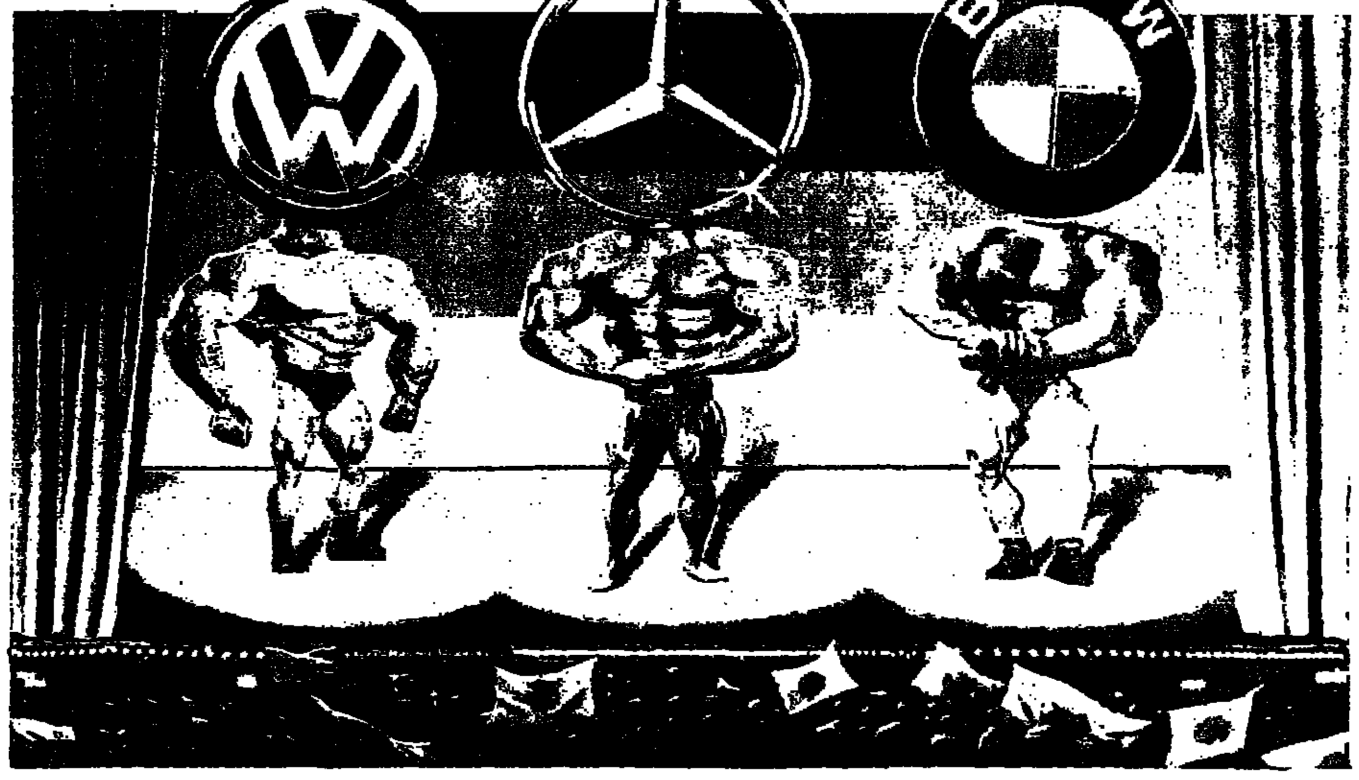
But from Tokyo to Thailand, prospects elsewhere in Asia look bleaker for the next few years. There are three broad categories:

- The Japanese look secure. The home market has softened because of the weak economy and increased domestic sales tax. But although exports to south-east Asia will fall, the weak yen and manufacturers' strong ranges mean sales to Europe and the US should take up some of the slack.
- South Korea's carmakers face a tougher task. Turning to the International Monetary Fund spells belt-tightening at home, where the market is already saturated. Exports will be easier *because of the wobbly won. But* their perilous finances mean it is by no means certain all Korea's carmakers will remain independent long enough to enjoy stronger sales abroad. Kia, in spite of the government intervention, and Ssangyong look weak; even mighty Samsung might have to scale back its motor industry ambitions.
- The principle of "last in, first out" during crises suggests the region's newest carmakers will be most at risk. Proton and Perodua in Malaysia, Timor, and to a lesser extent, Bimantara, in Indonesia, all have big growth plans which now look awry.

The Malaysians are better *placed than their Indonesian* counterparts. But even Proton will be pole-axed by crumbling domestic demand and steeply higher prices for the yen-denominated technology it buys from Japan. The cheaper ringgit will help exports, but foreign sales account for only a small part of turnover.

What the long-term implications of the Asian crisis are for Indonesia's upstart carmakers remains unclear, but the prognosis is not good. Timor was already struggling; its prospects look dire now. Others, such as Bimantara, which planned to expand their motor activities – and depended on now *hard-pressed Asian partners for* cash and technology – can hardly smile.

Haig Simonian



People

Hayek takes Smart step to his dream

With the opening of the Micro Compact Car plant at Hambach in eastern France, Nicholas Hayek, the flamboyant head of Switzerland's SMH watches group, has moved a step closer to his dream of mass-producing the world's most revolutionary car.

When sales of the Smart mini-vehicle start in continental Europe next March, Mr Hayek, an engineer who became Switzerland's "clock king", will see the realisation of an ambition which dates back to 1988. That was when he first hatched the idea of building a tiny two-seater "Swatchmobile" to promote urban mobility and cut city-centre congestion and pollution.

Although the reception from many carmakers was frosty, both Volkswagen and Renault appeared receptive. "The auto industry is very conservative. They work in a fortress," he notes. Volkswagen pulled out of the project, to be replaced by Mercedes-Benz.

The Smart could soon become a familiar feature on urban streets. But as production gathers pace, there are signs the irrepressible Mr Hayek, who wears up to three watches on each arm to showcase SMH's 14 brands, may already be turning his attention elsewhere.

In a complex deal in August, SMH sold the majority of its 49 per cent stake in Micro Compact Car to Mercedes-Benz, leaving the German group with 81 per cent of the joint venture.

Mr Hayek denies the sale was forced on SMH because of a slump in its share price as the investors started to fret about the financial burden of developing the Smart. "There had always been an agreement on what the investment would be, then Mercedes-Benz pushed it up. When we got the number, we said 'who's going to finance this?' This company makes SFr3.1bn. That's about two weeks business for Mercedes-Benz."

In return for selling part of SMH's stake in the joint venture, Mr Hayek took control of the MCC subsidiary behind the hybrid variant of the mini-car. While the first Smarts will be petrol and then diesel-powered, a hybrid has always been on the cards, he explains. "I wouldn't have entered into an agreement (with Mercedes-Benz) if we didn't have a development programme."

The precise timetable for launching the hybrid remains unclear, as do its technical details. The car will be powered by an internal combustion engine, which will generate electricity to power tiny motors on each wheel. The car should be economical enough to reach the motor industry's so-far unachieved goal of travelling at least 100km on three litres of fuel – a big step to silence environmentalists.

But while the hybrid is intriguing, it is the possibility of a four-seat Smart which is most perplexing analysts. Mr Hayek himself is uncharacteristically silent on the subject. All he says is that the deal cut with Mercedes-Benz leaves him free to develop the hybrid as he wishes. That could involve different body shapes, such as a four-seater or another partner, he says.

Mercedes-Benz's reluctance to get involved with a bigger variant may stem from the fact that it has already put its eggs into another basket. The new A Class hatchback is Mercedes-Benz's answer to a four-seat minicar. The company has also pursued a different line of thought on alternative fuels – in the shape of a hydrogen-powered fuel-cell.

That leaves the ebullient Mr Hayek free to concentrate on pushing ahead with other versions of the Smart. "For me, solar power is the real fuel of the future, but only if I live to be 500 years old," he says.

Haig Simonian

Magee the big casualty in Ford's changes

The biggest casualty of the shake-up at Ford of Europe was Keith Magee, head of sales and marketing and formerly the top Ford man on this side of the Atlantic, writes Haig Simonian.

A genial Iowan whose wife worked as a volunteer in a London soup kitchen, Mr Magee is retiring at the less-than-fulsome age of 51 and barely 18 months after moving to Britain.

The background to the changes, which mark the return to Europe of Jim Donaldson, a 54-year-old Scot who previously was head of Ford's immensely profitable Truck Vehicle Centre in the US, are still unclear.

Many pundits see Mr Donaldson's return as president of Ford of Europe – a post abolished under Ford chairman Alex Trotman's Ford 2000 restructuring process – as further evidence that Ford 2000 is being partly unravelled by Jac Nasser, Trotman's heir apparent.

The other surprise returnee is Henry Wallace, who has made a name for himself sorting out the mess at Mazda, in which Ford has a controlling stake. Wallace became a household figure in Japan, where he even featured in Mazda's advertising campaigns.

Mr Wallace's return to Europe – also in a new position as chief financial officer and head of strategic planning – is said to be for personal reasons. Mr Wallace promised his family his Japanese stint would be strictly limited: although appointed president of Mazda in June last year, Mr Wallace went out to Hiroshima as executive vice-president in December 1993.

Mr Wallace, who has worked outside his native UK for the past 17 years, says he only accepted the top Mazda job on condition it would be for no more longer than 18 months. But for Japanese managers used to marrying the company, his time at the top looks embarrassingly short and may increase resistance to other foreigners moving into Japanese management.

He has been succeeded by Jim Miller, one of a handful of Ford executives parachuted into Mazda and seen for some time as his natural successor.

Jim Donaldson: his move prompts several changes

The environment

The 'green agenda' comes under scrutiny

Haig Simonian talks with the Renault chairman ahead of the Kyoto environmental conference

Environmental issues are in the air again as leading policymakers and lobbyists meet in Kyoto this week for the biggest conference on climate change since the Rio "Earth Summit" of 1992.

But while environmentalists stand together in their demands for tougher reductions in carbon dioxide emissions – widely seen as a cause of climate change – the motor industry is divided in its response.

Europe's carmakers have responded more subtly than their "Big Three" US counterparts. General Motors, Ford and Chrysler are among the leading supporters of the Global Climate Coalition, the US pressure group that has spent about $13m lobbying Washington to oppose any deal on limiting the consumption of fossil fuels.

By contrast, Louis Schweitzer, president of the European Automobile Makers' Association (ACEA), wields no big sticks. "The problem of global warming is a global problem. Europe must do its fair share."

Louis Schweitzer: 'Europe must do its fair share'

But the Renault chairman wants to encourage critics of cars to go beyond just emotional objections. He is not surprised that cars have become a focus of environmental ire. "The motor industry is Europe's biggest manufacturing sector and symbolises private consumption."

But he argues that the problem of pollution is not caused by new cars. "The problem is not with new vehicles, but with the existing stock of vehicles sold before environmental legislation came into effect."

Critics have claimed such arguments dodge the issue. But Mr Schweitzer supports his point with figures.

"In France, 80 per cent of the pollution from motor vehicles comes from the 20 per cent of vehicles which are relatively old." The motor industry has made strides in reducing pollution. But as the average age of vehicles in circulation is rising, the industry is running just to stand still, he argues.

"The key problem in Europe is that the stock of cars is getting older. Whatever is done to reinforce that trend is bad for the environment. It also happens to be bad for the motor industry."

Mr Schweitzer is bullish about the long-term impact of technology to cut emission levels. However, there are two crucial issues. The first is affordability. "If new cars are not affordable, they will not necessarily eliminate the problem of pollution," he says.

The second concerns driver education. Pollution does not just dependen on a vehicle's absolute fuel consumption, but on how it is used and on road and traffic conditions in general, he notes.

Such arguments contrast with the much bigger public relations stick being wielded by US carmakers. Detroit has warned about job losses and recession if Washington agrees to limit fossil fuel consumption. Presumably, the policymakers in Kyoto will distinguish which is the more sophisticated approach.

New and updated

BMW 3 Series: similar to its big brother 5 Series

Alfa Romeo 156: European Car of the Year

Waiting for the wraps to come off

The torrent of new products timed for the Frankfurt and Tokyo motor shows this autumn has now dwindled to a trickle as makers of cars and commercial vehicles have closed the lock gates on details of their new vehicles for next year.

Among the most eagerly awaited newcomers of 1998 will be the next-generation Renault Clio and the revived Peugeot 205 – probably to be called the 206.

New arrivals from Germany will include Mercedes-Benz's latest luxury S Class and the convertible version of Porsche's new 911. The new year will also bring VW's New Beetle, to be premiered at next month's Detroit motor show, and possibly the VW version of the Seat Arosa minicar.

In spite of having so many new products up their sleeves, manufacturers have been parsimonious in providing glimpses of what is to come for fear of damaging sales of their existing models.

With a press launch in February of its A6 Avant, Audi has been one of the few to release official pictures of a 1998 model. The new A6 Avant – as Audi calls its station wagon derivatives – retains the sharp styling which made the saloon one of the most striking newcomers of 1997.

BMW has also released early pictures of its new 3 Series, to be launched at the Geneva motor show in March. As expected, the new 3 Series closely follows the styling of its predecessor and looks like a scaled-down 5 Series saloon. But not all BMWs are clones. The striking Z07 concept car, displayed at the Tokyo show last October, should form the basis for a DM200,000 supercar for the millennium.

More in the mainstream, the most important new arrival of 1998 will be Ford's next-generation Escort. Expected to be styled radically, with a swooping roofline and high-mounted tail lights, the new car should be seen in the metal for the first time at the Paris motor show in October.

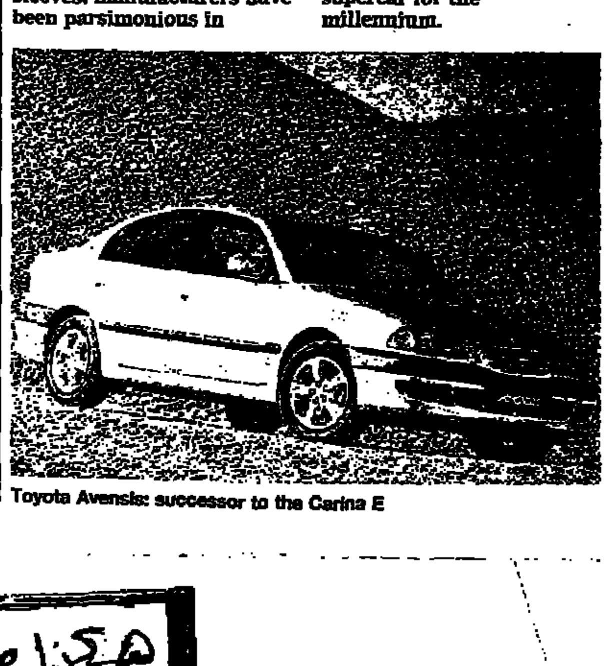
German companies will also be active in commercial vehicles next year. Mercedes-Benz will reveal the Atego, the light-medium counterpart to its heavy-weight Actros. Pictures remain *verboten*, although some trade publications have claimed scoops.

Next month will see the sales debut of Toyota's Avensis, a heavily revised successor to the routine but ultra-reliable UK-built Carina E.

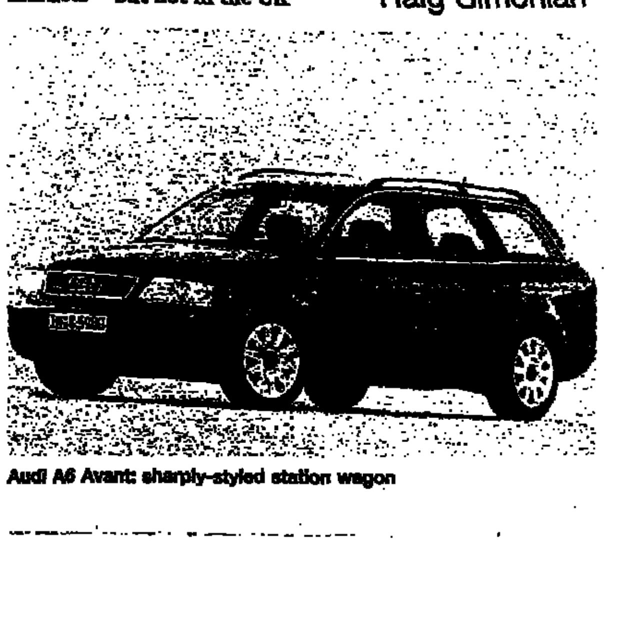
Already available in some continental European markets – but not in the UK until January – is the new Lexus GS300. Reflecting its greater awareness of the need for more distinctive styling in the executive car segment, Toyota asked Giorgetto Giugiaro, the Italian design guru behind the previous GS300, to spice up the new model with a much bolder frontal treatment.

Meanwhile, Alfa Romeo's stylish 156 saloon, mentioned on these pages in an earlier issue, was the surprise winner of the 1998 European Car of the Year award, announced last month. The Alfa is a fine car, and may, as parent company Fiat hopes, spearhead Alfa's long-heralded revival. But few observers believe the Alfa would have won but for the much-publicised problems of Mercedes-Benz's A Class, otherwise the almost certain winner.

Haig Simonian



Toyota Avensis: successor to the Carina E



Audi A6 Avant: sharply-styled station wagon

Commercial vehicles

European sunshine clouded by Asian worries

Worldwide uncertainties will lead to manufacturers redoubling efforts to cut costs and establish joint ventures, says **Haig Simonian**

The signs are there... economic worries from Asia to South America are casting some doubt about sustained recovery in Europe Photo: Ashley Ashwood

After a tough year in most markets, the outlook for the world's biggest commercial vehicle groups was looking up a little for 1998. But, just as the gloom was starting to lift in Europe and demand climbed even further than expected in North America, economic uncertainties in Asia and South America clouded the picture.

The new doubts caused by the crises of currencies and confidence in emerging markets means analysts are downgrading their forecasts for world demand in 1998. And they are warning that the predicted climb in sales *may not fuel* higher profits as pricing may remain weak or even soften.

Such commercial uncertainties are likely to accelerate the two decisive trends driving the commercial vehicles industry. Manufacturers will redouble their efforts to reduce costs by developing more modular products, and they will work even harder on joint ventures.

Both tendencies have been unmistakable in recent months. Volvo has tightened *its links with Mitsubishi, its* partner in the Nedcar passenger cars joint venture, to include trucks. It is still unclear how far the relationship will go. However, Volvo has agreed to market a light Mitsubishi truck alongside its own 7.5-tonne model in Europe from January. The two will also develop a future generation of middleweight 7.5 to 18-tonne products. And Volvo may supply axles and gearboxes for Mitsubsihi's heavy vehicles.

Daf and Renault have also announced plans to work together on developing *shared parts for future 6-to-19-tonne* vehicles. The deal is expected to involve cabs, but may include engines and axles.

The move is telling for both manufcaturers: it gives the first pointer to Daf's strategy following its purchase last year by Paccar, one of the biggest US truckmakers. And it shows Renault's commercial vehicles side is now belatedly striving to improve its lacklustre earnings by cutting costs.

That strategy lay behind Renault's decision earlier this year to sell its exhaust *parts and air tank operations* to Nelson, a US specialist, and effectively divest some of its gearbox activities to ZF of Germany, its existing joint venture partner.

The French group is also trying to harness economies of scale in its light van business by working more closely with GM. Under their deal, GM will rebadge Renault's existing Trafic range – to be called the Arena by GM in Britain. At a later stage, the companies will launch two new vehicles, to be built in Britain by IBC, the GM-Isuzu joint venture, and by Renault in France.

Closer co-oepration is also under way at Leyland Trucks, the independent UK truckmaker which produces the 45 and 55 light-mediumweight range for itself and Daf. The signs are that Leyland Truck is also strengthening its links with Isuzu, for which it is already building light trucks under contract, amid signs it will next launch a Leyland-assembled 7.5 tonner.

Other producers have been swallowing unpleasant medicine to improve their financial health. In May, Iveco closed its *Langley* truck plant in the UK, transferring production of the Cargo to its main Brescia factory. The group has also concentrated cab production at Brescia after closing the assembly unit at its Magirus-Deutz subsidiary in Germany.

Truckmakers have also accelerated their efforts to develop more modular products. Virtually every new vehicle on the market has been designed to share components – and even body panels, such as cab doors – with other products in a manufacturers' range.

Mercedes-Benz, the world's biggest truckmaker, expects to save about DM1bn a year from simplifcations to its Actros heavy range.

The Actros requires far fewer parts, cutting inventories and money tied up in working capital. And it is much easier to build than its predecessor, increasing productivity at the Wörth plant.

Mercedes-Benz's strategy should emerge even more clearly with the launch of its new light-medium truck range next year. The new vehicle, called the Atego, is expected to share many features with the Actros.

Joint ventures and modularisation may not be enough, however, to see the industry through potential minefields ahead. Scania predicted big savings in assembly times for its new 4 Series heavy vehicle last year. In fact, the range has turned out to be significantly more expensive to produce than expected, partly explaining the sharp deterioration in Scania's profits since its flotation.

Volvo's plans to save money by developing a family of modular heavy trucks around the world have also been becalmed. The problem is not the product: the new US-built VN range shares much with the well-regarded FH family sold in Europe. Volvo's US problems, rather, have stemmed from its sliding market share which has still not been fully reversed, in spite of the unexpectedly buoyant US market this year.

Whether more joint ventures and use of modules will be enough to improve truckmakers' profits and maintain the industry's current structure remains uncertain, however. Much depends on demand in South America – where most of the big manufacturers build vehicles – and Asia, where they are less – but still significantly – exposed.

It is already clear that salvation will not come from any windfall rise in demand, nor the surprise collapse of one manufacturer, helping to reduce the industry's chronic overcapacity.

Daf, the smallest of the main European truckmakers and for years the weakest link, has found a strong new parent in Paccar. Attention has now turned to the future of MAN, the next-smallest brand, amid speculation it may be snapped up by Volkswagen. Even Scania's future has come into question.

External salvation has been no more apparent in North America. This year's widely-predicted collapse in heavy truck sales turned into just the opposite and demand should recover even more next year. That has probably postponed any futher rationalisation in the industry, in spite of the widely-held belief that this year's decision by Ford to pull out of heavy trucks may not be the last of its kind.

Even Navistar, for many analysts a chronically weak producer, has gained a new lease of life in heavy trucks after a union deal, meaning the company will invest in a new Class 8 product.

The upshot of the changes is that while the pain in the world of commercial vehicles – especially heavy trucks – has not worsened significantly, it has not got any better either.

Local rivals battle for a bigger share

Peugeot-Citroën and Renault have seen contrasting fortunes over the past year, writes **David Owen**

FRANCE

Commercial vehicles have had contrasting effects on the fortunes of France's two main motor companies this year.

At Peugeot-Citroën, the success of the group's light commercial vehicle range helped it offset the impact of a severely depressed domestic car market and report better-than-expected first-half profits.

At Renault, a strikingly improved interim result was nonetheless weighed down by a FFr216m loss at its Renault VI truck and busmaking unit. *The full-year loss is* also expected to be "significant", although smaller than last year's loss of more than FFr700m.

The company was hit by what it called a "price war in Europe". Its European market share dropped to 10.8 per cent, against 12.1 per cent in the first half of 1996, on a market for trucks over 5 tonnes which contracted by more than 10 per cent.

Now, however, the Boulogne Billancourt-based company is making a concerted effort to turn the tables. This autumn, it launched a light commercial vehicle offensive designed to wrest back leadership of a European market which is growing faster than the car market and is said, for the moment, to offer better profit margins. Renault was the leader for 13 years before losing its position in 1993.

To make matters worse, leadership has now been taken by local rival Peugeot-Citroën, which claims 17.4 per cent of the European market, with sales up more than 30 per cent in volume compared with the first nine months of last year.

The two new Renault models are the Kangoo Express light van, which was launched in France in November and will be available throughout Europe by early next year, and the new Master commercial vehicle. They are likely to provide strong competition for rival manufacturers, including Peugeot-Citroën, whose *recent success has been* largely attributable to the Peugeot Partner and Citroën Berlingo models, both launched in July 1996.

In the longer term, Renault has also forged an alliance with General Motors of the US to develop and manufacture panel vans. The project will result in a replacement for the Trafic van range, which has been one of Europe's biggest-selling vehicles in the sector but which is now more than a decade old. *Overall investment on the* Trafic replacement is expected to run to FFr1.5bn.

In the truck market, too, Renault VI has invested heavily in new models in recent years. May 1996 saw the launch of the Premium medium truck range.

Though the mid-weight segment of the European market is particularly competitive, the company claims *to have had a strong reception*, with more than 22,000 orders notched up by the end of October. It spent FFr300m in all on launch costs in 1996, of which *FFr250m was for the Premium.*

This year it has turned its attention to heavier models, unveiling its facelifted Magnum in June and replacing the *Maxter heavy-duty truck* with the Kérax. The long-awaited successor for the venerable Midliner 7.5 to 15-tonne range, meanwhile, should arrive before the end of the decade.

The company is also making concerted efforts to cut costs by co-operating with rivals on specific projects. This year has brought new co-operation agreements with Daf Trucks and Nelson of the US, as well as the reinforcement of co-operation on gearboxes with ZF of Germany. A further cost-saving initiative is to try to make the most of synergies between the company's European operations and its Mack Trucks business in the US.

Analysts think the company, whose geographic base is narrower than some rivals, should benefit from a recent upturn in the key French market. "They have been through fire and water," says John Lawson, *motor industry analyst with* Salomon Brothers in London. But "France is going to have a much better end to the year than the start".

Renault's Kangoo Express has been launched in France; soonit will be available throughout Europe

European truck demand by sector

Country	1994	1995	1996	1997*	1998*	1999*	2000*	2001*	2002*
Light Commercial Vehicles (up to 6 tonnes)									
Austria	22,731	23,160	25,452	25,126	26,545	25,151	24,852	24,863	24,445
Belgium	29,682	32,213	37,233	46,831	49,588	50,057	49,975	48,511	46,508
Denmark	18,728	22,659	24,019	24,654	25,799	26,163	26,924	26,114	25,379
Eire	10,824	11,403	13,261	14,753	12,049	10,395	9,685	9,612	10,180
Finland	4,507	8,479	10,582	11,397	12,475	12,529	11,604	11,273	9,869
France	278,914	308,506	330,828	324,159	332,350	338,563	338,557	334,598	325,730
Germany	268,031	262,525	249,774	267,977	271,713	263,429	261,135	263,860	261,961
Italy	113,878	140,018	144,808	142,110	145,469	143,341	140,805	139,124	138,377
Netherlands	41,931	51,032	65,115	72,111	73,344	74,413	76,423	73,827	72,160
Norway	16,832	19,933	18,773	20,274	18,465	17,693	17,423	17,498	18,313
Portugal	74,278	54,581	71,318	78,115	79,726	83,281	82,412	80,648	78,399
Spain	109,059	111,838	128,216	151,102	153,631	155,562	153,652	148,637	143,733
Sweden	8,617	11,401	15,480	17,591	16,581	16,816	16,167	15,138	14,809
Switzerland	19,583	20,552	20,997	23,420	26,347	27,761	29,969	28,281	26,498
UK	172,745	186,547	194,877	211,538	217,480	219,153	218,823	214,877	209,039
Total	1,190,340	1,284,847	1,350,733	1,431,158	1,460,562	1,464,307	1,458,406	1,434,861	1,405,400
Medium trucks (6-15 tonnes)									
Austria	1,285	1,190	1,024	906	983	1,007	976	955	961
Belgium	1,570	1,658	1,814	1,781	1,856	1,892	1,732	1,572	1,611
Denmark	515	599	568	544	551	561	524	465	440
Eire	840	825	762	627	769	824	805	757	650
Finland	197	335	409	347	359	330	371	470	422
France	7,533	9,350	9,461	9,062	10,211	10,546	10,775	11,022	10,901
Germany	29,010	29,866	27,021	26,467	27,218	27,692	28,041	27,723	27,184
Italy	6,811	8,533	8,556	7,643	7,784	8,258	8,945	9,632	9,764
Netherlands	1,904	1,626	2,094	1,912	1,928	1,956	1,977	1,902	1,876
Norway	774	953	929	951	802	768	840	879	750
Portugal	1,624	1,358	1,192	1,480	1,865	2,219	2,042	2,164	2,272
Spain	4,707	5,523	6,211	5,836	6,536	6,209	6,871	7,195	7,450
Sweden	435	442	544	603	627	849	668	633	624
Switzerland	277	315	271	281	302	339	382	392	361
UK	15,448	17,220	17,102	14,895	15,629	16,494	16,993	16,852	16,195
Total	72,960	78,821	76,958	73,355	77,420	79,744	81,922	82,613	81,461
Heavy trucks, rigids & artics (15 tonnes-plus)									
Austria	4,478	4,861	4,669	5,285	5,276	4,967	4,717	4,883	5,245
Belgium	4,833	7,176	6,342	7,105	7,467	7,676	7,062	6,523	6,857
Denmark	2,763	4,237	4,139	4,105	4,277	4,532	4,163	3,750	3,535
Eire	1,509	1,638	1,930	1,640	1,643	1,477	1,638	1,964	1,869
Finland	1,409	2,377	2,198	2,010	1,882	1,913	1,960	2,063	1,883
France	24,814	31,924	33,666	29,055	30,267	32,293	33,854	35,211	34,573
Germany	36,412	42,305	40,549	41,826	42,984	43,219	43,069	41,681	41,306
Italy	9,860	15,443	16,280	14,208	13,463	14,703	15,558	16,109	16,393
Neths	8,829	10,871	12,448	11,109	11,603	12,300	12,535	11,724	11,322
Norway	2,055	2,755	2,945	3,034	2,220	2,145	2,315	2,463	2,057
Portugal	1,432	1,905	2,148	2,609	3,008	3,094	3,049	3,176	3,231
Spain	7,448	11,815	10,957	13,369	13,818	12,108	13,006	13,595	13,912
Sweden	2,115	2,841	4,611	3,299	3,129	3,484	3,811	4,075	3,857
Switzerland	1,746	2,497	2,518	2,244	2,433	2,744	2,958	3,111	2,999
UK	26,968	32,556	30,056	25,010	26,335	29,230	31,176	31,488	30,153
Total	136,671	175,001	175,452	166,208	169,785	175,885	180,969	181,816	178,992

* Estimates Source: DRI/McGraw-Hill

Commercial vehicles

Two-horse race has a fresh competitor

Stiff competition from Germany has put Volvo and Scania under pressure, writes **Tim Burt**

SCANDINAVIA

Scandinavia's commercial vehicle industry has long been a race between Scania and Volvo, the Swedish truck and bus manufacturers. But in the past year they have seen their market share in Europe threatened by an increasingly aggressive Mercedes-Benz.

The Scandinavian manufacturers, regarded as some of the most cost-efficient in the industry, have been squeezed by their German rival's decision to adopt a highly competitive pricing strategy in a bid to increase volumes.

So, although orders in Europe are almost 20 per cent higher than last year, northern Europe's truck manufacturers have yet to see the benefit – particularly Scania.

The former commercial vehicle flagship of Sweden's Wallenberg business empire, which was floated last year, appears to be more vulnerable than Volvo to pricing pressure from Mercedes-Benz because of its dependence on the heavy truck market.

Unlike Volvo, Scania does not have the broad product range or geographic spread to offset problems in its own backyard. It admitted as much recently when it warned that the pricing climate would hold back its profits this year.

Scania's difficulties have been compounded by higher-than-expected production costs and low selling prices for its Series 4 truck, the much-vaunted successor to its Series 3 vehicle. When it first launched the truck, on which much of its future profit depends, the company had hoped to realise significant productivity gains and command premium prices.

So far, that has not happened – at least in Europe. Moreover, competitors are beginning to imitate the company's industry-leading production methods, based on modular manufacturing and common components in all markets. This could threaten the enhanced productivity and better-than-average margins enjoyed by Scania.

The company is not slipping, of course; the others are catching up.

If it is to remain the best managed and efficient manufacturer in the sector, it will have to ensure that the launch of the Series 4 in Brazil – one of its largest markets – proves a success. Given the state of the Brazilian economy and recent tax increases, buoyant demand is not guaranteed.

Volvo does not have so much riding on the success of one vehicle. It has also pursued a more aggressive global expansion strategy, mainly in North America, south-east Asia and China, to offset pricing pressures in Europe.

While Scania saw pre-tax profits in the first nine months of this year fall from Skr2.14bn to Skr1.85bn, Volvo's truck division more than doubled its profits from Skr413m to Skr990m.

But given its relatively large size in the industry, some analysts question whether it can continue to grow organically. If not, it will have to look for alliance partners or acquisitions.

Volvo's senior management recently showed it shared those concerns by announcing plans to extend its co-operation agreement with Mitsubishi Motors of Japan to include trucks. The two companies, which make cars on the same production line in the Netherlands, have agreed to develop a new line of medium-duty trucks and share components on heavier vehicles.

While the deal promises economies of scale, it should also give Volvo access to Mitsubishi's latest emission controls equipment.

That all looks promising.

Not quite home from home, but cab comforts have improved in recent years Photo: Scania

But Volvo still lacks critical mass in North America, and might need to consider acquisitions to compete.

Both Scandinavian manufacturers, meanwhile, may need to consider consolidation at home. A question mark remains over whether Scania can remain an independent business, and whether Volvo trucks can withstand long-term pricing pressure from Mercedes-Benz.

One simple solution might be for them to fall into each other's arms. But as one leading industry analyst put it: "In heavy trucks - whether you are making them or driving them – it is not always easy to take the most direct route."

Cinders waits for the ball

The market holds firm without incentives, says **Paul Betts**

ITALY

Italy's commercial vehicle industry is the Cinderella of the country's automotive market, which is set for a record year. Government incentives for buyers of new cars have significantly boosted demand, and new car registrations are expected to reach 2.4m this year.

But the commercial vehicle sector will show no such spectacular growth. The discounts offered for all those replacing cars that are 10 years old or more with new ones have not been extended to vans and light trucks.

At best, the commercial vehicle market is likely to show a slight improvement on last year, with new registrations this year of a little more than the 152,000 total for 1996.

Commercial vehicle manufacturers say this performance is nonetheless encouraging. For even without incentives, the market has managed to hold up and new orders have been rising since early summer.

All the more encouraging is the fact that the sector enjoyed a boost last year from incentives granted under the so-called Tremonti Law whereby companies received tax breaks for acquiring new commercial vehicles. These fiscal incentives helped the market rise from 147,000 new registrations in 1995 to 152,000 last year despite the economic slump in Italy.

Rosario Abate, in charge

Continued on facing page

String of new models shape a surprise

Truckmakers are benefiting from renewed demand at home and abroad, writes **Graham Bowley**

GERMANY

Germany's commercial trucks market has revived strongly this year, leading the general pick-up throughout Europe. The recovery has been typified by the successful turn-around by Daimler-Benz, the country's biggest industrial group and the global truck industry leader.

"The German market has been the big surprise for us," says John Lawson, automotive analyst at Salomon Brothers in London. "Prospects for the remainder of the year remain positive."

The main reason for the German revival, according to Phillipp Rosengarten, automotive analyst at Standard & Poor's DRI in London, is the introduction of a series of new truck models. This has led to renewed demand for commercial vehicles, despite the depressed nature of the German economy, in particular the slow-down in construction.

German truck manufacturers such as Daimler-Benz and MAN have also benefited from strong export demand, an area where the weak D-Mark has helped. Asia and eastern Europe have been the regions which have provided especially strong demand for Germany's manufacturers.

Salomon Brothers notes in a research paper that although the German market had shown "only 1 per cent growth through [to] August 1997, August itself showed a 12 per cent increase in sales". It estimated that Germany would account for around 25 per cent of the European trucks market this year.

Mr Rosengarten estimated that new registrations of lightweight trucks would grow at a heady rate of 7.3 per cent this year to 268,000 units. This would come after a 5 per cent drop last year to 250,000. He expects growth to be more stable next year, with registrations rising 1.4 per cent to around 272,000.

"This is an impressive number," he said.

Sales of heavy trucks are forecast by Standard & Poor's DRI to rise 1.2 per cent this year to 68,500, after declining 6.4 per cent to 67,500 last year. They are expected to grow 2.6 per cent to around 70,000 next year.

Daimler-Benz is the company benefiting most from the introduction of new models, including the new Actros truck. "As Mercedes-Benz is the market leader this of course has a very important effect on the market in total," said Mr Rosengarten.

According to Salomon Brothers, Mercedes-Benz has about half of the German heavy and medium-size truck market and around half of its sales this year and in 1998 are expected to be in Germany. The new Actros has been able to compete with rivals, which had initially dented Mercedes' sales by tempting traditional customers away, Salomon said.

Mercedes has also benefited from the fact that its trucks already make up about one-third of Europe's vehicle fleet and that the company offers good service support backed by a wide dealer network.

"It is clearly more advantageous for big operators currently running Mercedes – and with 30 per cent of Europe's vehicle fleet being Mercedes, many do – to promote commonality in the fleet," said Salomon.

Mercedes' revival has eclipsed MAN, the other big German trucks maker which has around a 30 per cent share of the German heavy trucks market.

"Daimler, the global truck industry leader, is gaining European share as its Actros truck restores some of its former position in European markets," said Mr Lawson. "Cost reductions in the company and the leverage from North and Latin American markets make this company the clearest beneficiary of the current truck upswing."

Commercial vehicles

Tough rules on the way

Manufacturers are facing difficult economic conditions and heavy investment to meet emission controls, says Michiyo Nakamoto

JAPAN

Japan's commercial vehicle manufacturers are bracing themselves for a difficult few years.

After a worse-than-expected slump in the first half of this fiscal year (to March), a cut in public works projects amid sluggish economic activity threatens to depress demand further.

Meanwhile, stricter rules on emissions, which are to be introduced over the next few years, have forced truckmakers to invest heavily in research and development, as well as manufacturing facilities that are needed to produce engines that meet the new requirements. The downturn in Asian markets triggered by currency turmoil has also added to their woes.

For Japanese truck-makers, the market situation this year is far worse than they had envisaged initially. Demand fell more than expected in the first half in reaction to the increase in consumption tax from 3 per cent to 5 per cent in April. As a result, the industry forecast for sales this fiscal year has been lowered from 144,000 units in the domestic market to 131,000 units.

"The problem is that the drop in demand is large and the economy is stagnant. The downward revision to the second half was made due to the view that the economy will remain weak," notes Mr Eikichi Inoue, deputy general manager of public relations at Hino Motors, the largest of Japan's commercial vehicle makers. "We expect that there could even be less demand and that sales could fall below even 130,000 depending on the economic situation," he says.

The decline in demand is spurring intense competition in the domestic market, which provides 70 to 80 per cent of revenues, says Matthew Ruddick, industry analyst at HSBC James Capel. "There are simply too many truck manufacturers in Japan."

Of the companies which dominate the Japanese truck market, Hino and Mitsubishi are engaged in a fierce battle for market share, Mr Ruddick points out.

Hino, the largest truckmaker, aims to increase its share of the medium and heavy duty truck market from 29 per cent to over 30 per cent. Part of its agenda includes expanding into the small truck segment where it currently procures two-tonne trucks on an OEM basis from Toyota, a significant shareholder with 15.5 per cent. Hino is developing its own two-tonne model, which it will introduce from 1999.

The market for two-tonne trucks is dominated by Isuzu and Mitsubishi Motors, which together have a 65 per cent share of the market. Hino, which has concentrated on the medium to heavy truck sector, comprising trucks weighing more than 2.5 tonnes, has a modest share of the two-tonne truck market.

However, Hino believes that having a two-tonne truck in its range will increase its overall chances in the market by filling out its range of models on offer. "It has been our long-term aim to have two-tonne trucks. Customers say they want to stock the entire range of their trucks with Hino product. Without a two-tonne model we can't be a truly integrated manufacturer," Mr Inoue says.

The intense competition for market share is putting pressure on prices and eroding profit margins. Cost pressures are also on the rise as a result of new emission regulations that come into effect over the next few years.

Japanese exports have been hit hard by the downturn in Asian markets. Hino, for example, had expected to export 13,000 units to Thailand this year, 38 per cent of its total exports. However, exports to Thailand in the first six months totalled only 4,700 units, leading to a revised export forecast of 27,200 for the year.

Furthermore, the Thai market for pick-up trucks, such as the Hi-Lux which Hino manufactures for Toyota, has been battered by the after-effects of the baht's devaluation. As a result, initial forecasts of 319,000 units in consignment orders has had to be revised to 252,000.

Hino, which has halted production in Thailand for the rest of the year, expects demand there to remain weak for another two to three years.

Against all these negative factors, there is at least one bright spot on the horizon. Many Japanese companies which use commercial vehicles bought the trucks they use now during the last peak of economic growth in the late 1980s and early 1990s. Since most trucks have a useful lifespan of about eight to 10 years, manufacturers are expecting replacement demand to support the market.

Japanese truck production by manufacturer and weight sector

	1994	1995	1996	1997*	1998*	1999*	2000*	2001*	2002*
Hino									
Medium	40,951	40,087	44,903	45,865	43,570	44,063	44,724	44,755	44,854
Heavy	27,718	35,000	27,519	25,830	25,600	28,753	31,053	32,403	32,735
Total	68,669	75,087	72,422	71,495	69,170	72,816	75,777	77,158	77,589
Isuzu									
Medium	77,399	72,294	74,334	78,178	75,746	77,063	79,878	81,918	83,329
Heavy	15,266	22,929	18,640	19,106	17,840	18,522	19,196	19,910	19,819
Total	92,665	95,223	92,974	97,284	93,586	95,585	99,074	101,828	103,148
Mitsubishi									
Medium	39,092	39,905	35,877	37,363	36,825	39,375	42,771	44,356	45,158
Heavy	17,256	24,351	18,778	16,646	16,480	18,698	20,232	20,886	21,396
Total	56,348	64,256	54,655	54,009	53,305	58,073	63,003	65,242	66,554
Nissan Diesel									
Medium	25,301	23,566	25,398	26,795	25,339	26,250	27,147	27,972	28,350
Heavy	18,237	27,693	20,940	20,418	20,080	22,226	23,619	24,400	24,650
Total	43,538	51,259	46,338	47,213	45,419	48,476	50,766	52,372	53,000
Toyota									
Medium	4,432	2,580	676	698	820	750	781	799	810
Totals									
Medium	187,175	178,432	181,188	188,699	182,300	187,501	195,301	199,800	202,501
Heavy	78,477	109,973	85,877	82,000	80,000	88,199	94,100	97,599	98,600

* Estimates

Source: JAMA

Kia bankruptcy may lead to restructuring

Truck unit is likely to be a target for Daewoo, says John Burton

SOUTH KOREA

The South Korean commercial vehicle industry could be heading for a significant restructuring following the recent bankruptcy of the Kia motor group.

Kia Motors and its truck subsidiary, Asia Motors, have the second-largest share of nation's commercial vehicle market with a combined 41 per cent, against 47 per cent for Hyundai, Korea's largest automotive company.

The problems at Kia partly reflected a downturn in sales for commercial vehicles because of a sluggish economy. Capacity utilisation at Asia Motors, which has a total output of 255,000 vehicles a year, fell to a mere 21 per cent last year against 79 per cent for Hyundai's commercial vehicle production.

The poor sales aggravated Asia Motors' difficulties in paying debts of nearly $2bn, which it has amassed after a recent expansion of its plant facilities. A similar loss of sales for Kia's car division left Korea's eighth-largest conglomerate unable to service total debts of $10.5bn.

The fate of the Kia group is now in the hands of the Korean government, which has taken a controlling stake in an effort to prevent plant closures and job losses.

The government initially said that it would sell Asia Motors, while it would try to nurse Kia Motors back to health. But Jin Nyun, a former labour minister who has been appointed as the new chairman of Kia by the government, has suggested that he might merge Asia Motors with Kia Motors instead of selling it.

Daewoo, Korea's fourth largest conglomerate, is likely to buy Asia Motors if the government proceeds with its plan to sell it. Although Daewoo is the nation's second-biggest carmaker, its commercial vehicle operations are small and account for only 5 per cent of the domestic market.

Nonetheless, Daewoo has ambitions to become a big truck producer, and it recently developed a full range of trucks and buses.

Daewoo's emphasis on overseas production would help boost foreign sales for Korean commercial vehicles, which accounted for only 12 per cent of the 1.15m vehicles the nation exported last year.

A possible acquisition of Asia Motors by Daewoo would increase the latter's share of the domestic commercial vehicle market to 12 per cent.

Meanwhile, analysts are speculating about the future of Ssangyong Motors, which has 6 per cent of Korean commercial vehicle market. Ssangyong is producing commercial vehicles, such as light vans, under licence from Mercedes-Benz for export to the Asian market. But Ssangyong's recent expansion into passenger car production has left the company with a huge debt burden of 50 times equity.

Italy's Cinderella

Continued from facing page

of commercial vehicles at Fiat Auto, Italy's dominant carmaker, is relatively optimistic. "We have been seeing an improving trend during the past two years and we expect it to continue next year," he says.

The commercial vehicle market has traditionally been regarded as reflecting the state of the economy as a whole because its performance is closely correlated with industrial activity in general.

The signs in recent months have indicated a recovery in Italian industrial production which has been mirrored by the resilience of the commercial vehicles market this year despite the absence of the Tremonti incentives.

In the first 10 months of this year, registrations have grown by nearly 3 per cent to 123,399 vehicles, compared with nearly 120,000 in the same period last year. Italian manufacturers consolidated their hold on the market with a 57 per cent share.

Fiat Auto had nearly 40 per cent of the market, with the Turin conglomerate's Iveco heavy truck subsidiary, taking a further 13 per cent. Piaggio, which builds only very light commercial vehicles, had 4 per cent of the market.

Fiat Auto has been steadily recovering market share since 1994 following the successful launch first of its Ducato vehicle (part of the Italian group's commercial vehicle manufacturing joint venture with the French Peugeot-Citroën group) and then of the Scudo, another vehicle involved in the French joint venture.

From its 32.9 per cent share of the Italian market, Fiat Auto has steadily climbed back to 36 per cent in 1995 and to 39.3 per cent last year. It is now consolidating at 40 per cent.

The Turin company expects to reinforce further its grip on the market with the replacement of its small Fiorino van to be produced in Brazil in 1999 or 2000. It is also planning a van version of its new Palio world car for 1999 which will again be produced, initially at least, in Brazil.

Commercial vehicles

Truckmakers drive a long and twisting road

Several short-term factors, such as problems on the railways, offer hope for a relatively buoyant time, writes **Richard Waters**

THE US

The recent jump in industrial production in the US has come like a shot of adrenalin for the country's labouring heavy truck industry. But, given the stop-start nature of demand for trucks recently – not to mention the ageing of the American economic expansion, which has now gone on for six years – this may be just one more turn in what has become a twisting and tortuous road for the heavy truckmakers.

For now, at least, things look relatively good. The output from American factories – the most obvious factor that drives truck sales – soared in the third quarter after recording solid gains in the first six months. With the manufacturing sector set to advance by around 4.5 per cent for the year as a whole, 1997 should see at least a partial reversal of last year's slump in heavy truck sales, with a strong start ahead for 1998.

Volvo's US truck arm says it expects sales of Class 8 trucks – the type that drag trailers around American roads – to reach around 176,000 this year, against last year's 170,000. With a backlog of orders already stretching to around 128,000 vehicles, it adds, sales next year could rebound to 190,000. This would be not far short of the record 201,000 trucks sold in the US in 1995.

Several short-term factors could help in making the next few months a relatively buoyant time for most truckmakers. The severe bottlenecks that have built up in the Union Pacific rail network in recent months have forced some freight on to the roads, boosting demand for vehicles, says Bruce Plaxton of MacKay, an Illinois-based research and consulting firm in the heavy machinery industry.

Also, he says, a two-month hiatus in production early next year as Freightliner shifts production of its recently-acquired Ford heavy truck operations – now renamed Sterling – will cut capacity temporarily and help other manufacturers.

The short-term boost, however, will not solve the deeper problems that have bedevilled North America's heavy truckmakers. Profitability has been patchy in an industry that has suffered from lumpy demand, severe price pressure and mixed success in productivity.

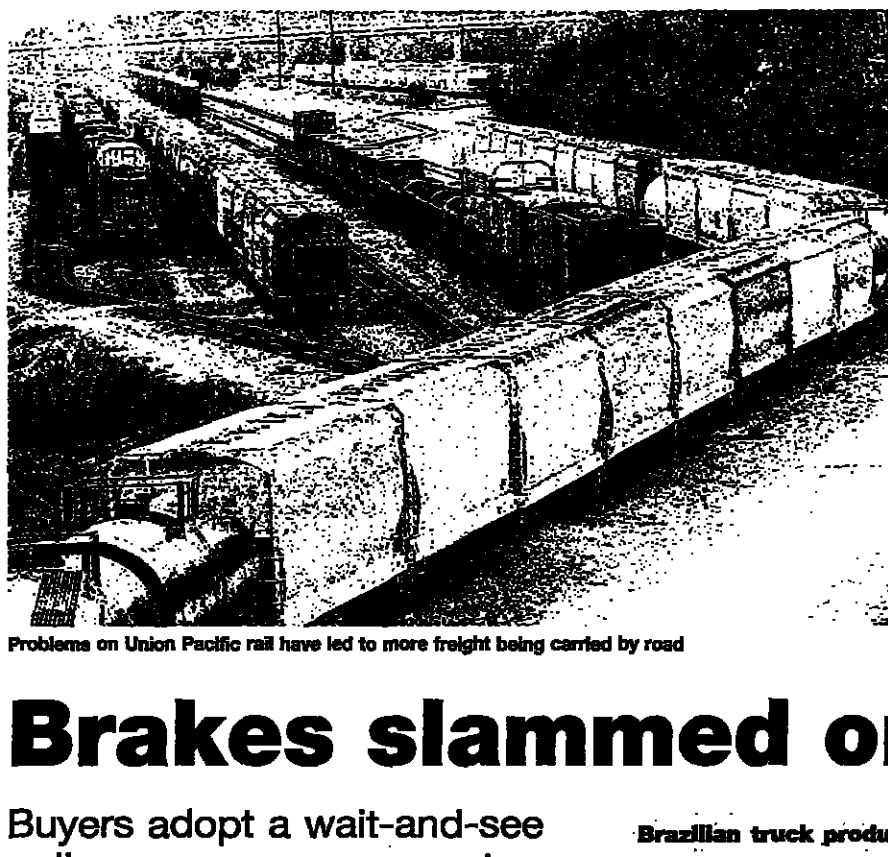
There have been attempts to get to grips with some of these problems. Volvo, which saw its share of vehicle sales fall from around 12.5 per cent in the early 1990s to 9.1 per cent last year, has spent the last year overhauling the management of its truck operations in the US and reached an agreement to buy out General Motors' minority stake in the business.

Ford Motor has quit the business with the sale of its heavy truck operations to Freightliner, which is owned by Daimler-Benz. That will leave the German company with around 35 per cent of the US market – a powerful position to challenge some of the smaller players in the years ahead.

Picking the next possible victim of this fiercely competitive market is not easy. Until recently, Navistar, with a falling market share and high labour costs, was at the top of most peoples' lists.

In the first 10 months of this year, though, its market share climbed back to 19.4 per cent, from 16.7 per cent for the whole of last year, and a recent union agreement seems to have set the stage for more efficient working practices at the company.

When the US economy next runs into the sand, however, the pressures under which the truck makers have struggled are likely to return quickly.



Problems on Union Pacific rail have led to more freight being carried by road

North American truck production by weight sector and manufacturer

(US and Canada combined)

	1994	1995	1996	1997*	1998*	1999*	2000*	2001*	2002*
Medium (Classes 4-7)									
Ford	53,731	60,080	46,130	52,157	54,494	46,077	48,775	51,211	52,750
Freightliner	6,998	11,017	19,074	20,412	18,769	18,581	20,528	21,772	22,113
GMC	41,636	44,229	30,048	42,390	38,537	35,793	35,780	36,725	35,903
Navistar	55,543	64,032	59,930	61,999	59,432	57,235	59,034	59,498	59,943
Paccar	754	1,271	188	0	0	0	0	0	0
Volvo	965	882	706	439	613	610	623	630	702
Total	159,627	181,511	156,076	177,398	171,845	158,295	184,739	188,898	171,310
Heavy (Class 8)									
Ford	24,932	21,956	18,085	11,970	0	0	0	0	0
Freightliner	55,256	65,513	55,127	62,194	80,334	75,889	73,765	78,021	80,848
Mack	25,911	27,720	23,512	28,204	27,054	23,378	21,620	22,830	23,250
Navistar	41,818	46,231	31,747	41,298	41,879	33,141	29,706	30,891	31,815
Paccar	45,773	50,472	41,267	46,120	44,108	38,598	38,816	41,303	43,100
Volvo	26,292	26,990	16,635	20,216	19,730	17,976	17,747	18,900	18,925
Miscellaneous	5,193	6,229	5,430	5,310	5,642	4,929	5,161	5,587	5,621
Total	225,175	245,111	191,803	214,312	218,745	93,887	186,817	197,332	203,358

* Estimates

Source: DRI/McGraw-Hill

Brakes slammed on as markets slide

Buyers adopt a wait-and-see policy as pressures mount. **Jonathan Wheatley** reports

BRAZIL

Brazil's commercial vehicles industry held its annual trade fair only a matter of days before turmoil swept through the world's capital markets recently.

The mood was bullish. Truck sales were growing at an annual rate of 35 per cent and several manufacturers had decided to bring forward planned investments to meet rising demand, based on what appeared to be stable, long-term economic growth.

Suddenly, the future looks a lot less rosy. As Brazil's stock markets plunged after the Asian collapse and fears grew of an attack on the Brazilian currency, the government responded with austerity measures.

First, basic interest rates were doubled to more than 40 per cent a year. When this failed to calm financial markets, the government hastily produced a $18bn fiscal squeeze composed of spending cuts and tax increases.

The outlook for commercial vehicles now looks bleak. The immediate effect of the squeeze has been to put much of the economy on hold as potential purchasers wait to see whether the measures will be enough to see Brazil through the crisis.

The government says it wants to cut interest rates again as soon as possible, but its ability to do so will depend on whether Congress gives speedy approval to its budget package, about a third of which requires endorsement.

"People are putting off decisions on whether to buy trucks pending a review of the interest rate position," says Hans Hedlund, president of Scania's Brazilian truck operation. "We haven't cut production yet because we have a new truck coming on stream soon, but we are reviewing the position."

Such a cut seems inevitable. Both Scania's main competitors in the heavy trucks market, Mercedes-Benz and Volvo, have production and investments under review.

Volvo said sales fell by 30 per cent in the first weeks of the crisis and reduced output by the same amount. It dropped overtime and weekend working and doubled the year-end holiday period to 20 days. The company also put off until the end of the year a decision on whether to cut planned investments of R$400m to modernise and expand its factory in Paraná state.

Mercedes-Benz said sales dropped by 40 per cent in the 10 days after the interest rate increase, and would decide this month whether to cut production. It spent $70m this year on its truck plant in Sao Paulo state and plans to invest a further $470m in 1998-2001.

General Motors says it will reduce production by 25 per cent. But it stuck to plans to begin producing its seven-tonne 7-110 model in Brazil last month at a rate of 8,000 a year instead of importing them from Japan as previously.

The stock market crisis came just as Brazil's bus and truck makers – Ford and Volkswagen make up the six big players – appeared to have turned the corner. Sales were up strongly this year for the first time since the government moved to slow economic growth after the inflation-beating reforms introduced in mid-1994.

Few in the industry doubt that growth will return. Rising levels of foreign direct investment, expected to reach $15bn this year, are one indication of Brazil's medium-term potential.

When the upturn comes, however, will depend on a change of attitude in Congress, where for the past two years legislators have dragged their feet over fiscal reforms needed to underpin the government's success in fighting inflation.

In this respect, the crisis has its positive side: spurred into action, the lower house of Congress finally approved a bill to reform the civil service on November 19, raising hopes that speedy endorsement of other reforms will follow.

In the meantime, truck makers must tighten their belts. "Brazil will still be a very profitable market in the long term," says Mr Hedlund at Scania, "but much will depend on whether the economy gets going again next year."

Brazilian truck production by manufacturer & manufacturer

	1994	1995	1996	1997*	1998*	1999*	2000*	2001*	2002*
Ford									
Medium	11,245	12,880	9,348	10,445	11,421	12,987	13,648	13,982	14,261
Heavy	441	576	648	742	772	791	846	875	905
Total	11,686	13,456	9,996	11,187	12,193	13,778	14,494	14,857	15,166
GM									
Medium	2,584	2,205	893	824	1,012	1,350	1,548	1,676	1,827
Mercedes-Benz									
Medium	20,311	19,373	14,207	16,177	18,561	21,148	22,057	22,931	23,192
Heavy	7,123	7,686	3,657	5,941	7,828	8,746	9,687	10,214	10,641
Totals	27,434	27,059	17,864	22,118	26,389	29,894	31,744	33,145	33,833
Scania									
Heavy	6,754	6,550	5,326	6,814	7,087	7,417	7,824	8,247	8,578
Volvo									
Heavy	5,562	5,820	3,722	4,677	5,482	6,213	6,893	7,470	7,882
Volkswagen									
Medium	8,014	13,427	10,117	11,617	13,428	14,211	14,975	15,216	15,350
Heavy	628	897	344	541	976	1,093	1,170	1,215	1,245
Total	8,642	14,324	10,461	12,158	14,404	15,304	16,145	16,431	16,595
Totals									
Medium	42,154	47,885	34,565	39,063	44,422	49,696	52,228	53,805	54,630
Heavy	20,508	21,529	13,697	18,715	22,145	24,260	26,420	28,021	29,251

* Estimates

Source: DRI/McGraw-Hill

PROFILE **US Freightways**

Low profile, but high success

The names of its regional trucking subsidiaries – such as Reddaway and Holland – are familiar across North America. Yet few public companies have kept as low a profile as US Freightways, one of the largest regional trucking companies, based just a stone's throw from Chicago's O'Hare airport.

For years the group was better recognised as the US subsidiary of TNT, the Australian transportation group. After a troubled start on the US west coast, TNT Freightways – as it was then called – expanded on the back of de-regulation in the trucking industry. It made a series of acquisitions in the 1980s, adding Holland Motor Express in 1984, followed by Bestway, Dugan and Reddaway in 1989.

The break with the Australian parent came in 1992. Grappling with a stretched balance sheet, TNT sold a 75 per cent stake in the US trucking business through an initial public offering, at $19.50 a share, raising around $250m. The US company later bought the remainder of its parent's stake.

It changed its name to US Freightways last year in order to avoid confusion with the Australian company.

Behind the self-effacing style lies a growth story. US Freightways' revenues, which barely topped $500m in 1990, exceeded $1.3bn in 1996. In March this year US Freightways replaced Conrail as one of the 20 companies which make up the Dow Jones Transportation Average.

Today its core business remains "less than load" (LTL) shipments, and it ranks as number one in the regional trucking market (as opposed to long-haul or inter-regional). Average line-hauls range between 250 and 450 miles, depending on region.

The five main trucking subsidiaries each cover different geographical areas and are backed up by almost 300 terminals. There are just over 215,000 employees, of whom almost two-thirds are drivers.

This business accounted for more than 90 per cent of group revenues both last year and in the first nine months of 1997, when revenues reached $1.13bn.

But it has not always been so smooth. Like most trucking companies, US Freightways suffered badly in the harsh winter of 1996, when it operations were hit by a prolonged cold period, flooding in the Pacific north-west and ice storms in the south-east.

To compound the difficulties, a hike in diesel fuel prices then squeezed margins. A slowdown in the economy, coupled with excess capacity in the LTL market, also put pressure on profits.

The net result was reflected in after-tax profits of $31.5m, down from $33.3m in 1995. A $4m charge for restructuring at the Red Star subsidiary, which covers the north-east, compounded the financial squeeze.

During the year, Dugan also absorbed the Transus business, a south-eastern carrier, while Reddaway and United merged their operations in the west-northwest.

But, so far, the current year has been less traumatic. Prices have stabilised and, helped by a fairly settled economic environment in the US, most of the business units have improved market share. After-tax profits in the first nine months of 1997 increased to $41.8m, compared with $23.5m at the same stage a year earlier.

US Freightways has also been pushing into the logistics business over the past seven years. It now runs a separate a contract logistics division – an industry which it sees tripling in size by the end of the decade. This new arm was bolstered last year by the acquisition of Chino, a California-based business which provided contract warehousing, operating around 1.2m square feet of space.

Most recently, the Chicago-based company has bought Seko Worldwide, a freight forwarder, operating in the US and internationally – a move which the US group says should help boost expansion of its services next year. Seko's annual revenues are around $120m a year.

Nikki Tait

Joint ventures provide road to success

But east-west alliances have been slower to evolve than expected, says **George Bennett**

EAST EUROPE

Truck manufacturers in eastern Europe are entering alliances with western European partners in order to compete with imported vehicles in their home markets and to build vehicles fit for export.

The typical pattern is a joint venture company, in which the western partner provides high-value items such as engines and gearboxes. In Belarus, for example, truck manufacturer Maz has just teamed up with MAN, Germany's second-biggest truck producer, which will supply cabs, gearboxes and engines.

In Russia, Gaz now has a licence from Steyr, of Austria, to build engines, while in Romania, RomanDac is increasingly using engines from Varity Perkins. In Ukraine last year, truckmaker Kraz took 40 per cent of a joint venture agreement with Iveco, the commercial vehicle subsidiary of Fiat, under the name Motorsich. The Italian company also has a 33 per cent holding in Urulaz, in Russia, which uses Iveco engines and driveline components.

These recent agreements underline the fact that significant western involvement in the east has been slower than was expected after the collapse of communism.

One of the first into the east was Cummins, the US diesel engine manufacturer, which formed a joint venture company with Kamaz, the Russian truck manufacturing giant, in 1991. But demand slowed to a trickle in Russia's ensuing economic chaos.

Paula Johnson, Cummins' business development manager for Europe, Africa and the Middle East, described the Kamaz deal as still dormant for lack of local purchasing power.

Meanwhile, Cummins is working with a number of other manufacturers in eastern Europe, including Skoda-Liaz in the Czech Republic.

Engines, in particular, are being sourced from western Europe because they are expensive to develop, as are cabs and transmissions, and because it is doubtful whether eastern manufacturers yet have the expertise to meet even current EU emissions standards. Central and eastern European governments have wanted to impose emissions standards to bring them into line with the EU, Ms Johnson says.

Despite initial setbacks, many companies are becoming more confident about Russia, she said, although so far one of the most reliable truck manufacturing territories in eastern European has been Poland.

Several western manufacturers have their own assembly plants in Poland, including Volvo, which is currently building around 2,000 trucks a year in a facility opened three years ago.

The first reason for choosing Poland was stability, said Stefan Lorentzson, a Volvo spokesman; the second was its role as an important transit country between western Europe and Russia.

MAN also has an assembly plant in Poland. One of its functions is to act as a potential bargaining tool with German trade unions, according to Gunther Dietz, MAN's international sales and marketing director.

Zasada, the Polish truck manufacturer, now has a joint venture agreement with Mercedes Benz to build buses and vans.

While there is little sign of eastern European manufacturers making an impact in western Europe markets, they are trying to export further afield. It is not so much the product as absence of marketing expertise which is the problem, according to Rod England, an automotive industry consultant who was formerly marketing director at ERF and Leyland.

The vehicles themselves are not bad, he says, but the companies have lost the ability to market products.

The other problem is competition from used vehicles imported from the west. Who is going to buy a Czech Tatra, when they can buy a secondhand Mercedes?

Finally, most eastern European manufacturers were traditionally orientated towards supplying the Soviet Union, and although the terms of trade have changed, the market remains the same. As the Russian economy gathers pace, so will the eastern European truck manufacturers.

At Cummins, Ms Johnson says: "It's a bit like China and India; you've got to be there for 10 years, behind the scenes, before it starts to pay off. In eastern Europe, we're halfway through that 10-year process."

Complete packages wanted

Truck manufacturers are having to adapt to customers being more demanding. **Jack Semple** reports

Truck manufacturers in Europe are striving to adjust to the needs of a fast-changing market.

Large customers in the UK, and increasingly across continental Europe, no longer simply seek a fleet discount off the front end price of trucks – they want a complete package for anything from a short rental period to one of seven or more years.

Large contract hire specialists were providing these services, buying trucks in volume at very low prices and with their own maintenance arrangements. Manufacturers feared that they would become the dominant force in the market, threatening both manufacturers' margins and the viability of their dealer networks.

The truck builders have responded, with varying degrees of urgency and success, by starting contract-backed bank, finance and maintenance services in a bid to protect margins and their networks and to force close links with customers.

Volvo set up Volvo Truck Finance in the UK a decade ago when it was the first to recognise that "design, build, sell" would not be enough in the future.

That company, now renamed Volvo Contract Services in recognition of its diversification, has been a pioneer; by 2000 it will be managing 22,000 trucks in the UK and is likely to be offering total fleet resource management for large fleets, meeting peaks and troughs to order. The UK company has spawned similar finance units across western Europe and in the US.

At Iveco, a key change has come this year with the decision to integrate Fidis, a hitherto semi-autonomous financial services arm of the Fiat group, into the car and truck operational structure.

Truck manufacturers now take the view that most customers want to buy the services of a truck, rather than the product. In the UK, Transport Development Group always bought outright – until this year. For the current year it is acquiring most of its £15m-worth of trucks on operational lease for the first time.

Roger Dye, group financial director, says that not only will leasing bring fixed costs of ownership, but competition is so keen in terms of residual value guarantees (the fixed price for the truck at the end of the lease) that leasing is probably a more profitable option for TDG than ownership.

John Lawson, at Salomon Brothers in London, says there are potential dangers in the truck companies' deepening involvement in truck funding and residual values.

There is, he says, a temptation to set a high residual value in order to move metal – the smaller the gap between the purchase price and the residual value, the more competitive will be the weekly lease or rental charge made to the operator.

In addition, retaining ownership of the truck allows a manufacturer much greater influence on secondhand prices through the control of how, when and where used vehicles are let into the market.

A slump in the heavy truck market, with a consequent fall in used truck prices, may be planned for and manageable; trucks will continue to earn revenue, so long as the operators survive in business.

However, a prolonged recession could push some fleet customers into bankruptcy. The revenue from those trucks would dry up abruptly and the manufacturers would be faced with having to sell in a market where no one wants to buy.

"I would not suggest it is an accident waiting to happen, but there is a risk, and the volatility of the market is an issue," says Mr Lawson. The potential fall-out for a manufacturer would be significantly more painful than the battening down of production lines with which they are familiar in times of reduced demand for new trucks.

There are ways of laying off risk, but it is impossible to tell, from the outside, what level of prudence is being employed by a truck company in setting residual values, Mr Lawson adds.

The warning signs were visible in 1993, when the failure of Daf, the Dutch manufacturer, was laid squarely at the door of the financial services arm in the Netherlands. It had been used to boost sales and misjudged the risk. The crisis came when the last in a series of recapitalisations failed.

Every truck company in the business denies that it takes undue risks with its financial services/asset management side in order to win fleet business and "move metal". It does not always seem that way to customers, however. Residual values are a key battleground in the truck price war, they say.

The development of added-value has had a big impact on truck dealer networks in the UK. As manufacturers seek to retain competitive advantage on costs they have often driven down hourly rates for maintenance work and on parts prices. The *quid pro quo* is intended to be increased volume.

At the same time, manufacturers have increased the number of parts and service outlets so that operators do not have to take their trucks so far for servicing.

A year ago it seemed that the manufacturers, in particular Volvo, Scania and Mercedes-Benz, might succeed in driving the large contract hire and rental companies out of that market. However, they have proved resilient and some now predict a comeback. The leading funders, too, such as GE Capital, Lombard and Forward Trust (part of HSBC), which has its own contract hire arm targeting major fleets, are said to be increasingly aggressive in their pricing. "The wheel is turning," says Mike Williams, chief executive of Dawson group.

The vehicle has been chosen: now for selecting the method of acquisition

To rent a fleet, to buy, or mix?

Companies have to consider many factors when acquiring their cars. **John Griffiths** investigates

In a rapidly-changing employment and economic climate businesses are concluding that there is no such thing as an "ideal" approach to acquiring cars for their executives. This is despite strident campaigns by the contract hire industry to convince companies that this particular form of outsourcing is the solution to all problems of buying, owning and administering fleets.

A large, cash-rich company running a fleet of several hundred or thousand cars can opt to buy, manage and dispose of its own cars efficiently, using in-house management and the wide array of sophisticated fleet management computer software now available.

Others, just as validly, are likely to opt for contract hiring their high-mileage, relatively low-value cars for salesmen and other essential users, while continuing to buy their executive – frequently "perk" – car fleet outright.

Just how varying the criteria can be for financing the company fleet was highlighted this year in a study of the sector undertaken by UK remuneration advisers Alan Jones & Associates. The study of nearly 160 companies included a few of the thousands of smaller businesses running fleets of 100 cars or fewer, but concentrated on larger concerns. The average turnover was more than £500m, and a cross-section included the Automobile Association, Burmah Castrol, Dixons, the electrical retailer, Motorola, RTZ and Tesco, the UK supermarkets group.

It showed that 52 per cent of companies use contract hire, but more more than 40 per cent still opt for outright purchase – and a number of the companies questioned use both methods.

It is these two approaches which dominate; other variants, after sometimes brief bursts of popularity, are becoming marginal. Finance leases, Alan Jones found, still had some attraction for around 11 per cent of companies surveyed. But contract purchase, lease purchase and the traditional hire purchase are used only at the margins.

Being cash-rich is an obvious reason for outright purchase, as was openly acknowledged by the companies questioned. But their most widely-quoted reason was the total control exercisable over the fleet. Add in some of the additional reasons quoted for buying outright, not least irritation at what is described as "niggly" on-costs incurred in contract hire and leasing, and it can be seen that contract hire still has some way to go before it can claim domination of the company car sector. However, it can draw some satisfaction from the Alan Jones research in that, having experienced contract hire, 94.5 per cent of the companies said they would recommend the contract hire agencies they used.

David Atkins, editor of the annual Monks Partnership survey of company car policy, which conducts its own research among a similar spread of companies, agrees that "more companies are now using mixed methods of acquisition, for instance leasing the bulk of the fleet and outright purchasing a small number of high-value cars for the most senior staff".

Not all the research provides consensus on trends, however. Another of the large annual surveys undertaken, by Tolley Dial, concludes that more than 60 per cent of company cars are bought outright, with less then 30 per cent on contract hire. Again, however, the research indicates that many companies use a mix of both, with executive sector cars more likely to be purchased.

It is among companies with an increasing presence across Europe, however, that the contract hire and leasing sector can look for some of its best growth prospects, even within the executive car sector. Few companies will not be tempted to take advantage of the trend among large specialist contract hire and leasing groups such as Cowie Interleasing and HSBC-owned Swan National to set up EU-wide operations, sometimes using local partners with specialised knowledge of their national markets.

For many companies with a significant presence in a number of EU markets, the "hassle" factor in seeking efficiently to buy, operate and dispose of a wide mix of cars throughout a region with still widely-varying national car market characteristics is beginning to appear greater than the loss of day-to-day control implicit in moving to a EU-wide contract hire scheme.

"National differences within the EU are not going to disappear; doing business in Spain or Greece will always be in contrast to doing business in Sweden or Germany," according to Vahid Daemi, managing director of the UK subsidiary of Lease Plan, a leasing and contract hire group already operating in 17 European countries.

Leaving the hassle behind

Tax has made company cars less attractive, but they still have strong support, says **John Griffiths**

The leasing of company cars is big business. Of the 3m company cars on UK roads today, the British Vehicle Rental and Leasing Association estimates that 1.2m are either on contract hire or some other form of leasing or specialist fleet management.

The overall size of the business fleet has enjoyed steady growth, confounding sceptics who suggested that, particularly for executives receiving their cars as a "perk" and part of their remuneration package, the popularity of the company car would decline as its tax treatment became, over the years, less lenient.

Neither an increasingly severe taxation regime nor the offer of cash allowances as an alternative has brought decline.

"What these industry observers failed to consider before making their pronouncements," says the BVRLA, "is the benefit and importance of hassle-free motoring. Employees place a significant value on their ability to hand over all their car-related problems and responsibilities to a specialist third party."

The attractions in the UK of contract hire in particular have strengthened this year. Partly this is the result of rentals having been held down by the one-off benefit brought about by VAT changes, under which lessor companies can now reclaim the VAT they pay on their car purchases and pass on savings to customers. Partly, too, rentals are being kept down by fierce competition in the servicing and repair sector. Maintenance costs have actually fallen.

Peter Walker, press head of the financial services division of BMW (GB), says a large majority of the record 65,000 cars the company expects to sell in the UK this year will have been acquired through contract hire.

"Apart from the lack of hassle for executives through having no administration costs or worries, there's no depreciation to worry about and no unexpected repair costs. It has to be a serious consideration if the employing company is VAT-registered."

Mr Walker believes that changes to the UK company car taxation system expected to be announced by Gordon Brown, the chancellor of the exchequer, in his next budget in the spring will also increase business for the contract hire and leasing sector – but from executives taking up the cash alternative to the company car increasingly being offered to executives.

Mr Brown is expected to announce changes discouraging the private use of company cars through a system which would increase the tax bill according to the amount of private use of the car rather than, as is the case now, providing two levels of tax discount for those covering higher business mileages.

Executives seeking to escape the new system will still want to enjoy the lack of "hassle" enjoyed during their company motoring, says Mr Walker. So even while unable to enjoy any VAT benefit, many are likely to want to take out personal contracts providing the same level of service as a company contract hire package.

Under the current tax regime, the take-up of the cash alternative has been low – typically well under 10 per cent of executives within those companies offering it, "so the process is only just starting", says Mr Walker. "But if Mr Brown really does hit the company car harder then there may be significant change."

Far from condemning such change, even some of the biggest names in the contract hire and leasing industry are saying that they welcome it; that it may be long overdue; and, not least, acknowledging that the current system has been both open to abuse and has adverse effects on the environment.

Under current company car taxation, the 35 per cent of a car's list price on which company car drivers must pay tax each year is reduced by one-third if the year's business mileage exceeds 2,500 and by a further one-third if business miles rise above 18,000.

"That makes little sense in environmental terms as it encourages the company car driver to bump up business mileage in order to qualify for the tax breaks and qualify for lower charges.", says Ian Goswell, executive director of Barclays Bank's Dial Contracts vehicle finance and fleet management subsidiary, which manages 45,000 cars and finances 49,000 in the UK.

"We feel the changes should reward drivers for using their cars with consideration for the environment; discourage them from selecting bigger and prestigious, but less efficient, cars; help to reduce an organisation's cost base; and discourage unnecessary travel to meetings when perhaps technology could be used instead."

Dial and other leading players are already preparing for what they expect to be a significant shift in the structure of the business, developing company-assisted purchase schemes (CAPs).

Under the scheme Dial plans to introduce early next year, individual executives will be able to contract hire cars using cash allowances granted in lieu of the company car. The advantage for drivers, claims Mr Goswell, is that they escape the company car taxation net, can receive sound advice on the most appropriate car for their needs, and benefit from the market muscle that leading lease companies such as Dial can exert in both buying cars and contracting their repair and maintenance.

Companies should find such schemes working in their favour as well, says Mr Goswell. "The employer can still offer access to a recommended car acquisition scheme as part of the remuneration package, thus keeping the organisation competitive in the recruitment and retention of staff...but the company can stipulate that certain manufacturers, models and colours deemed inappropriate would not be available within the scheme, thus guarding, to a degree, the corporate image and ensuring that the car awarded as part of the remuneration package remains in accordance with the grade of management."

Dial expects individual drivers taking up the scheme to account for 30 per cent of its customer base over the next five to eight years.

New entrants are being encouraged into the field, among them Paragon Car Finance, a Paragon finance group subsidiary now ranking Ron Young, the former Finance and Leasing Association chairman, among its directors. Paragon is taking a more inclusive approach than Dial, however, including both used and "classic" cars as options for executives taking the cash alternative.

Statistics

Rolling out the metal

Production figures for selected leading car and light commercial vehicle groups†

The widespread industrial and financial troubles of the Asia-Pacific region provide a source of alarm for the world's car industry, *writes John Griffiths.*

The widely-held assumption that the region would provide one of the main outlets for growth of an industry facing near-saturated markets throughout the developed world has been brought into question by the possible knock-on effects of recession in Japan, particularly if the Yamaichi Securities collapse is followed by others and by the economic difficulties confronting other east Asia countries such as South Korea, which is now seeking help from the International Monetary Fund.

The first few months of 1998 will be crucial.

But there is at least some optimism within the industry that growth in other emerging regions, notably Latin America and central and eastern Europe, will be able to compensate for adverse trends in Asia. If this optimism proves justified, 1998 could still see the small but steady increases in production which, as the accompanying tables show, most of the leading industry players were able to enjoy during the past year.

Unless the difficulties of the Asean states become markedly more difficult, says Standard & Poor's DRI forecasting group, world car output should still be able to rise by around 1.5 per cent next year even if some of it, in the form of increased exports from a Japan with depressed domestic markets, will not be welcome to western producers.

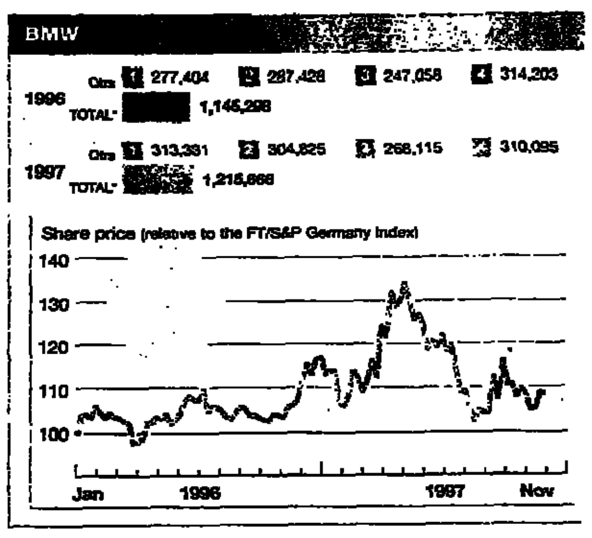
Production in Latin America, mainly Brazil, is continuing to expand at a rapid rate. Brazil's car output was up by around one-fifth in the first three quarters of this year, and with yet more plants from, among others, General Motors, Peugeot and Ford due to come on stream, there is little on the horizon in the near-term to slow expansion.

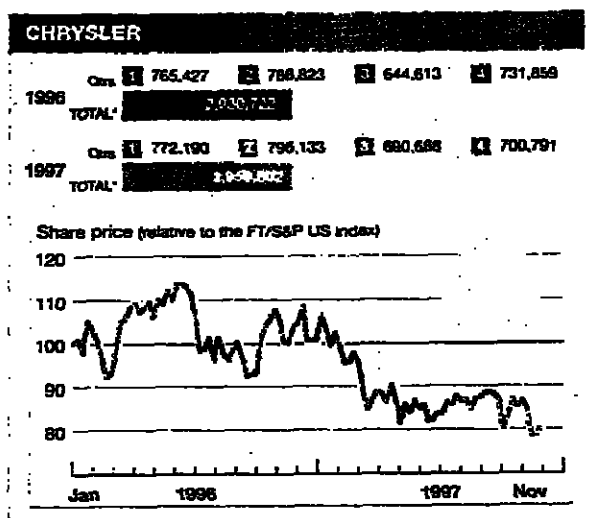
West European production had looked set for output growth of little more than 1 per cent next year, but almost certainly will be boosted by Italy's scrappage scheme, which has sent Italian sales soaring by more than 50 per cent in recent months. Output in central and eastern Europe is also being boosted.

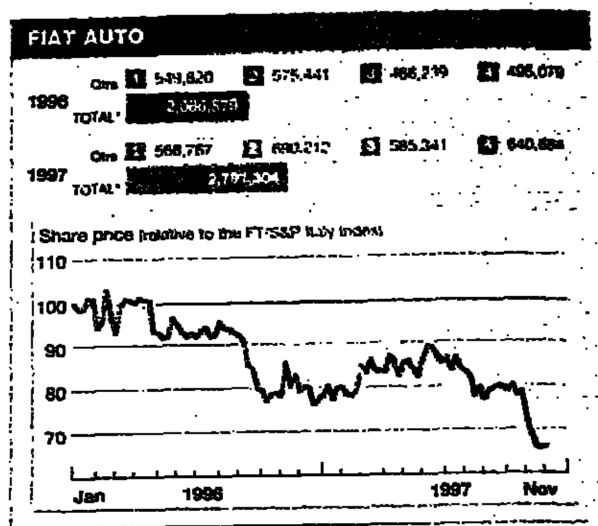
Notes † Includes all domestic and foreign subsidiaries. For example, BMW includes Rover

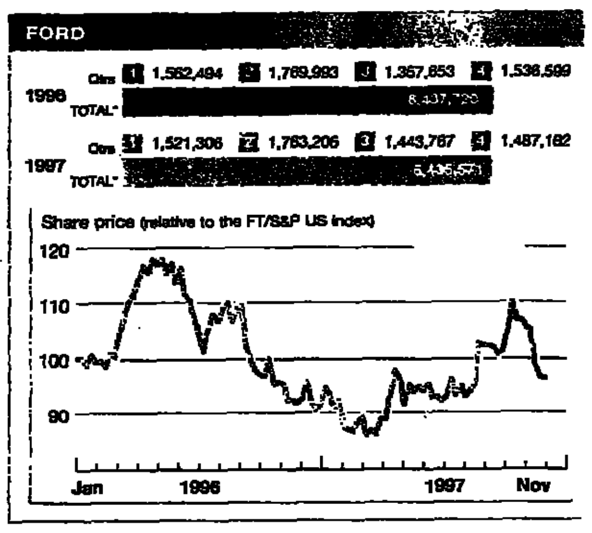
* Figures for Africa, Asia, Australia, Eastern Europe are included only in annual totals

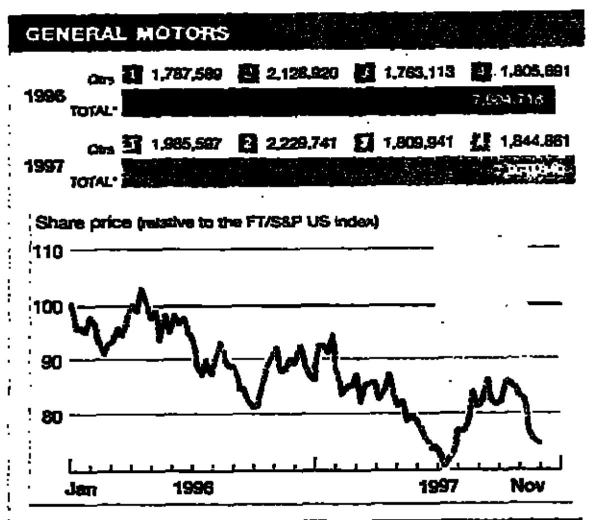
Figures for Q3, Q4 1997 are estimates

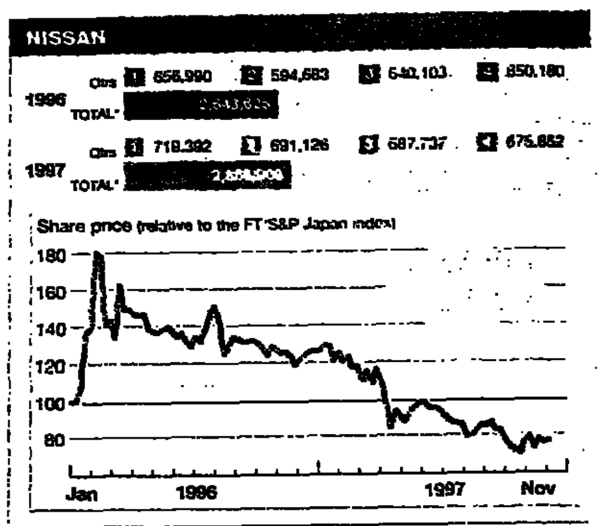


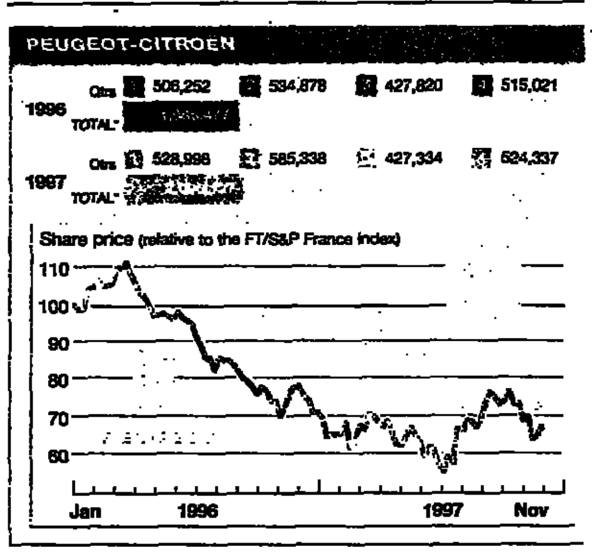


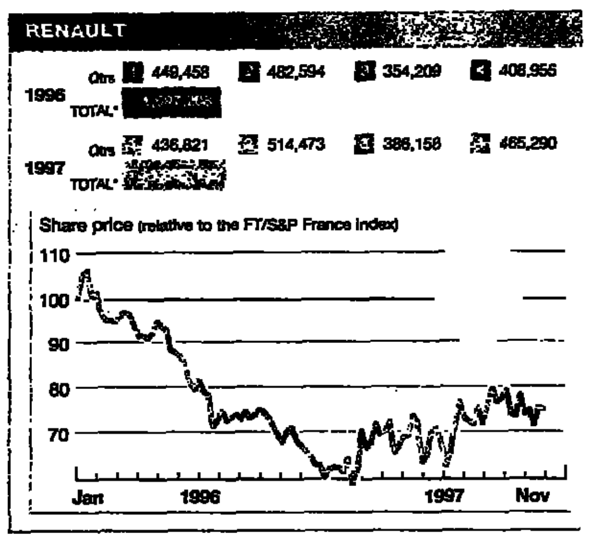


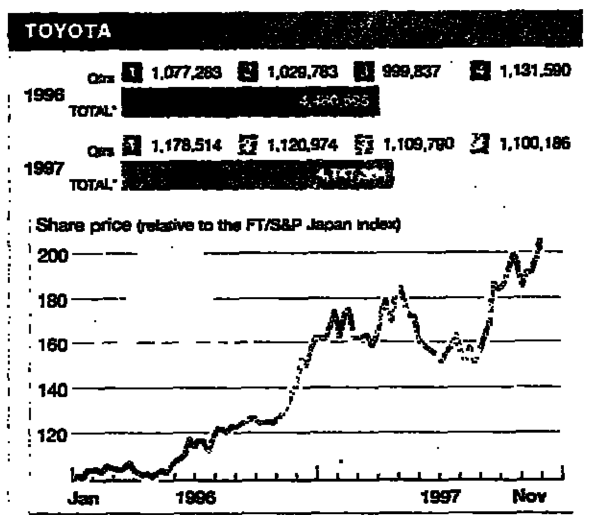


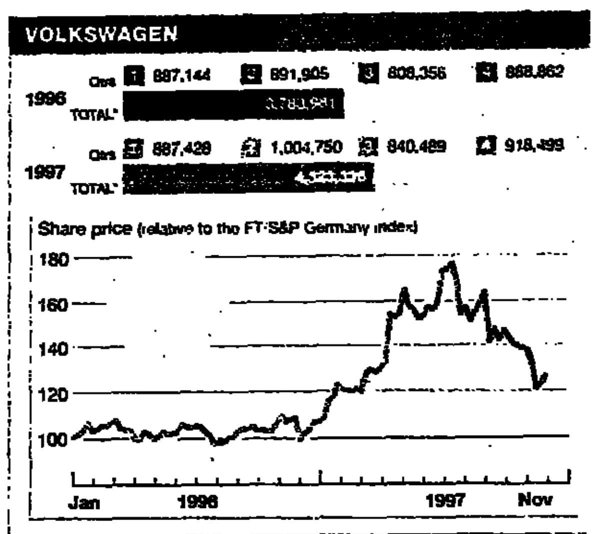












Graphic: Ian Fullwood

Source: Datastream/ICV; Marketing Systems

Distribution

City 'village' cuts the flab

Haig Simonian takes a look at pioneering schemes to sell cars

Having axed production costs and squeezed suppliers, carmakers have turned to distribution and retailing as the last big areas to fight the flab.

Manufacturers' initiatives have ranged from improving logistics by rationalising regional stockpiles to bringing dealers on-line to accelerate delivery times. However, Italy has recently emerged as the guinea pig for two pioneering schemes which could change the face of selling cars in Europe.

Rover has used its highly successful Italian subsidiary to experiment with a new style of dealership. The company's new "Rover Villages" are an extension of the Land Rover Centre concept developed in the US in recent years.

The Rover Villages – the first of which opened near Rome earlier this year – combine a US-style Land Rover Centre with other features. The obvious elements include a Rover showroom and a Land Rover test track. But less traditional features include a theatre, library, display of vintage Rover products and even a "traditional English" pub.

Humbert Carcel, spokesman for Rover Italy, says: "Our aim is to make the experience of buying a car pleasurable and comfortable." Further plans include setting up an English language school on site.

Rover is playing on a safe wicket. Italy has become its biggest export market, with sales of more than 53,000 vehicles in the first 10 months of this year – up 56 per cent on the corresponding period last year. The big improvement has come through eliminating smaller and more marginal outlets. Surviving dealers have been encouraged to invest in their premises, while sales have been boosted by the group's overall product-led revival.

Italy is a particularly strong market for four-wheel drive vehicles, buoyed by Land Rover's growing sales to the carabinieri, armed forces and other state bodies.

But Rover's clubby "wood and leather" image also appeals to Italian buyers trying to adopt a fashionable "English" look. Although not cheap, the brand has also been lifted by very competitive pricing.

But these attractions underestimates the scale of Rover's Italian success. The company expects to sell more than 63,000 cars this year, giving it a record Italian market share of 2.7 per cent and confirming its position as Rover's biggest export market. Sales have grown from L480bn in 1993 to an expected L1,600bn this year, says Salvatore Pistola, head of Rover Italy.

The increase will come in spite of spurning incentives. Sales of new cars in Italy have soared this year on the back of the government's car scrappage scheme. Like similar programmes in France and Spain, the system operates by offering drivers a big government incentive when trading in an old vehicle.

The government money has to be matched by the carmaker. But Rover has preferred to avoid incentives. "We don't want to get into discounting", says Mr Pistola. Individual dealers, however, can offer incentives if they wish.

Meanwhile, Mercedes-Benz has turned to Italy for a different, but equally innovative, retailing ruse. The company is setting up a chain of city-centre mini-showrooms to showcase its products.

Originally launched to coincide with the arrival of the new A Class small hatchback, the project has gone ahead in spite of the vehicle's postponed launch on safety grounds. The centres, staffed and financed by local dealers, are intended to spotlight a range of Mercedes-Benz products, including "lifestyle" items such as Italian-designed clothing and accessories. "We're trying to move away from sterile showrooms in the suburbs to something right in the heart of the city," says Jochen Prange, president of Mercedes-Benz Italy.

The outlets, which have an area of between 150 and 200 square metres, are all relatively small and can hold only one car. "But that is not the point," says Mr Prange. "The centres are intended to serve as meeting points, where people can just drop in, and where we'll have a chance to tell them about the world of Mercedes-Benz." The outlets will also include videos showing Mercedes-Benz's role in Formula One racing through the McLaren team and displays of the company's automotive technology. Each outlet will be able to take orders for cars through a direct audio and video link to a local dealership.

The idea for the centres was dreamed up by the Italian subsidiary, but is being watched very closely at group headquarters in Stuttgart, says Mr Prange.

"The A Class showed us we had to reach a new level of customer," he says. The concept had to be approved by the entire Mercedes-Benz board. "Of course, they're all very curious to see what will happen."

The first of the "MB Spots" opened in Milan in mid-October. Located in the heart of the Galleria, Mercedes-Benz could hardly have chosen a more prestigious location. Further openings, concentrated in wealthy northern Italy, should take the total to 12 by year-end. Mercedes-Benz says the plan has gone ahead smoothly, in spite of the A Class's much-publicised problems. But the car's delayed introduction is likely to damage the Italian initiative at least financially. Although the MB Spots are relatively small, their up-market locations means rents are sky-high.

Mr Prange says the total investment in each "Spot" will be about L600m – excluding rent. Mercedes-Benz is indirectly helping to fund the scheme by offering participating dealers extra margins on their A Class sales. "I'm quite sure it will pay for itself," he says.

Both the Rover and the Mercedes-Benz ventures highlight how car companies are trying to lure customers into their showrooms and create stronger brand loyalties at a time of growing competition. The fact that both chose Italy reflects the country's commercial importance for both brands. But it also says something about the country's general receptivity to new ideas, suggests Mr Prange. "Maybe the atmosphere is better here."

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